BANK OF CHILE
Form 20-F
April 28, 2016
Table of Contents

As filed with the Securities and Exchange Commission on April 28, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2015

Commission file number 001-15266

BANCO DE CHILE

(Exact name of Registrant as specified in its charter)

BANK OF CHILE
(Translation of Registrant s name into English)

REPUBLIC OF CHILE
(Jurisdiction of incorporation or organization)

Banco de Chile

Paseo Ahumada 251

Santiago, Chile

(562) 2637-1111
(Address of principal executive offices)

Rolando Arias Sánchez
Banco de Chile

Paseo Ahumada 251

Santiago, Chile

Telephone: (562) 2653-3535

Facsimile: (562) 2653-2952
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing 600 shares of common stock, without nominal (par) value (ADSs)	New York Stock Exchange
Shares of common stock, without nominal (par) value	New York Stock Exchange (for listing purposes only)

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None
(Title of Class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

Shares of common stock: 96,129,146,433

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

x Yes o No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

o Yes x No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

o Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP o	IFRS x	Other o

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

o Item 17 o Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

o Yes x No

Table of Contents

TABLE OF CONTENTS

Table of Contents

Table of Contents

FORWARD-LOOKING STATEMENTS

This annual report on Form 20-F contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), and the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Although we have based these forward-looking statements on our expectations and projections about future events, it is possible that actual results may differ materially from our expectations. In many cases, we include a discussion of the factors that are most likely to cause forward-looking statements to differ from actual results together with the forward-looking statements themselves. These statements appear throughout this annual report, including, without limitation, under Item 4. Information on the Company and Item 5. Operating and Financial Review and Prospects. Examples of such forward-looking statements include:

- projections of operating revenues, net income (loss), net income (loss) per share, capital expenditures, dividends, capital structure or other financial items or ratios;

- statements of our plans, objectives or goals, including those related to anticipated trends, competition and regulation;

- statements about market risks, including interest rate risk and foreign exchange risk;

- statements about our future economic performance or that of Chile or other countries in which we operate; and

- statements of assumptions underlying such statements.

Words such as believe, anticipate, plan, aims, seeks, expect, intend, target, objective, estimate, project, potential, pred could, may, will, should and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. These statements may relate to (i) our asset growth and financing plans, (ii) trends affecting our financial condition or results of operations and (iii) the impact of competition and regulations, but are not limited to such topics. Forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ materially from those described in such forward-looking statements included in this annual report as a result of various factors (including, without limitation, the actions of competitors, future global economic conditions, market conditions, foreign exchange rates and operating and financial risks), many of which are beyond our control. The occurrence of any such factors not currently expected by us could significantly alter the results set forth in these statements.

Factors that could cause actual results to differ materially and adversely include, but are not limited to:

- changes in general economic, business, political or other conditions in Chile, or changes in general economic or business conditions in Latin America, the United States, Europe or Asia;

- changes in capital markets in general that may affect policies or attitudes towards lending to Chile or Chilean companies;

- increased costs;

- increased competition and changes in competition or pricing environments, including the effect of new technological developments;

- unanticipated increases in financing and other costs or the inability to obtain additional debt or equity financing on attractive terms;

- natural disasters;

- the effect of tax laws on our business; and

- the factors discussed under Item 3. Key Information Risk Factors.

Table of Contents

You should not place undue reliance on forward-looking statements, which speak only as of the date that they were made. This cautionary statement should be considered in connection with any written or oral forward-looking statements that we may issue in the future. We do not undertake any obligation to publicly release any revisions to such forward-looking statements after the filing of this annual report to reflect later events or circumstances or to reflect the occurrence of unanticipated events.

PRESENTATION OF FINANCIAL INFORMATION

We prepare our audited consolidated financial statements in Chilean pesos and in accordance with International Financial Reporting Standards in effect from time to time as issued by the International Accounting Standards Board (IFRS).

Unless otherwise indicated, the financial information included in this annual report with respect to 2011, 2012, 2013, 2014 and 2015 has been derived from financial statements that have been prepared in accordance with IFRS. See Note 2(a) to our audited consolidated financial statements as of and for the year ended December 31, 2015 appearing elsewhere in this annual report. IFRS differs in certain significant respects from Chilean Generally Accepted Accounting Principles (the Chilean GAAP). As a result, our financial information presented under IFRS is not directly comparable to any of our financial information presented under Chilean GAAP. Accordingly, readers should avoid such comparison.

In this annual report, references to $, U.S.$, U.S. dollars and dollars are to United States dollars, references to pesos or Ch$ are to Chilea (see Note 2(t) to our audited consolidated financial statements as of and for the year ended December 31, 2015 appearing elsewhere in this annual report), and references to UF are to Unidades de Fomento. The UF is an inflation indexed Chilean monetary unit of account with a value in Chilean pesos that is linked to and adjusted daily to reflect changes in the Consumer Price Index (CPI) of the *Instituto Nacional de Estadísticas* (the Chilean National Statistics Institute). As of December 31, 2015 and April 25, 2016, one UF equaled Ch$25,629.09 and Ch$25,889.57, respectively.

This annual report contains translations of certain Chilean peso amounts into U.S. dollars at specified rates solely for your convenience. These translations should not be construed as representations that the Chilean peso amounts actually represent such U.S. dollar amounts, were converted from U.S. dollars at the rate indicated in our audited consolidated financial statements as of and for the year ended December 31, 2015 or could be converted into U.S. dollars at the rate indicated. Until November 30, 2011, Banco de Chile applied the observed exchange rate reported by the *Banco Central de Chile* (the Central Bank) in order to translate its financial statements from Chilean pesos to U.S. dollars. However, beginning December 1, 2011, Banco de Chile adopted the exchange rate of accounting representation, or spot exchange rate, for such matters. This is also described in Item 3. Key Information Selected Financial Data Exchange Rates. Thus, unless otherwise indicated, the U.S. dollar amounts have been translated from Chilean pesos based on the exchange rate of accounting representation as of December 31, 2015 as determined by our Treasury on a daily basis, based on the average of the daily closing bid and offer rates reported by Bloomberg for the Santiago Stock Exchange. As of December 31, 2015 and April 25, 2016, the exchange rates of accounting representation were Ch$708.24 = U.S. $1.00 and Ch$669.91 = U.S.$1.00, respectively. As of the same dates, the observed exchange rates, as published by the Central Bank, were Ch$707.34 = U.S.$1.00 and Ch$666.80 = U.S.$1.00, respectively.

The Federal Reserve Bank of New York does not report a noon buying rate for Chilean pesos.

Unless otherwise specified, all references in this annual report to total loans are to loans to customers before deducting allowances for loan losses, and they do not include loans to banks or contingent loans. In addition, all market share data and financial indicators for the Chilean banking system as compared to Banco de Chile s financial information presented in this annual report are based on information published periodically by the *Superintendencia de Bancos e Instituciones Financieras de Chile* (SBIF) which is published under Chilean GAAP and prepared on a consolidated basis. For more information see Item 4. Information on the Company Business Overview Competition.

In this annual report, past-due loans are any loans for which the counterparty has failed to make a payment when contractually due, including installments that are overdue, plus the remaining balance of principal and interest on such loans. In order to distinguish between different overdue time periods, the corresponding time

Table of Contents

period is included after the term Past-due Loans (for example, Past-due Loans 90 days or more). For more information, please see Item 4. Information on the Company Selected Statistical Information Classification of Loan Portfolio Based on the Borrower s Payment Performance.

According to Chilean regulations and for the purposes of this annual report, regulatory capital (Regulatory Capital) consists of:

- basic capital, which is composed of our paid-in capital, reserves and retained earnings, excluding capital attributable to subsidiaries and foreign branches (Basic Capital); and

- supplementary capital, which is composed of the following: (i) our subordinated bonds, considered at issue price (reduced by 20% for each year during the period commencing six years prior to maturity), but not exceeding 50% of our Basic Capital; plus (ii) our voluntary allowances for loan losses (up to 1.25% of risk-weighted assets to the extent voluntary allowances exceed those that banks are required to maintain by law or regulation); minus (iii) our goodwill and unconsolidated investments in companies (Supplementary Capital).

Certain figures included in this annual report and in our audited consolidated financial statements as of and for the year ended December 31, 2015 have been rounded for ease of presentation. Percentage figures included in this annual report have not in all cases been calculated on the basis of such rounded figures but on the basis of such amounts prior to rounding. For this reason, percentage amounts in this annual report may vary slightly from those obtained by performing the same calculations using the figures in our audited consolidated financial statements as of and for the year ended December 31, 2015. Certain other amounts that appear in this annual report may similarly not sum due to rounding.

Inflation figures are those reported by the Chilean National Statistics Institute, unless otherwise stated herein or required by the context.

MACRO-ECONOMIC AND MARKET DATA

In this annual report, all macro-economic data relating to the Chilean economy is based on information published by the Chilean Central Bank. All market share data, financial indicators and other data relating to the Chilean financial system are based on information published periodically by the SBIF, which is published under Chilean GAAP and prepared on a consolidated basis.

Table of Contents

PART I

Item 1 Identity of Directors, Senior Management and Advisors

Not Applicable.

Item 2 Offer Statistics and Expected Timetable

Not Applicable.

Item 3 Key Information

SELECTED FINANCIAL DATA

The following tables present historical financial information about us as of the dates and for each of the periods indicated. The following tables should be read in conjunction with, and are qualified in their entirety by reference to, our audited consolidated financial statements as of and for the year ended December 31, 2015 appearing elsewhere in this annual report. The financial information for the years ended December 31, 2011, 2012, 2013, 2014 and 2015 is presented under IFRS.

Our audited consolidated financial statements have been prepared in accordance with IFRS for the years ended December 31, 2011, 2012, 2013, 2014 and 2015.

	For the Year Ended December 31,											
	2011		2012		2013		2014		2015		2015	
	(in millions of Ch$, except share and per share data)										(in thousands of U.S.$)	
IFRS:												
CONSOLIDATED STATEMENT OF INCOME DATA												
Interest revenue	Ch$	1,501,684	Ch$	1,672,766	Ch$	1,765,942	Ch$	2,045,604	Ch$	1,908,457	ThU.S.$	2,694,647
Interest expense		(624,209)		(708,629)		(704,371)		(788,788)		(680,169)		(960,365)
Net interest income		877,475		964,137		1,061,571		1,256,816		1,228,288		1,734,282
		290,108		287,272		287,093		272,188		305,979		432,027

Net fees and commissions income												
Net financial operating income		58,101		16,199		32,672		35,204		44,412		62,708
Foreign exchange transactions, net		(7,973)		35,136		71,457		70,225		57,318		80,930
Other operating income		24,735		20,887		25,884		27,211		25,486		35,985
Provisions for loan losses		(146,925)		(166,420)		(221,653)		(261,566)		(246,222)		(347,653)
Total operating expenses		(595,000)		(612,934)		(619,530)		(727,360)		(726,278)		(1,025,469)
Income attributable to associates		3,054		(468)		1,780		2,486		3,243		4,579
Income before income taxes		503,575		543,809		639,274		675,204		692,226		977,389
Income taxes		(65,431)		(63,928)		(89,085)		(79,685)		(82,321)		(116,233)
Net income from continued operations, net of taxes	Ch$	438,144	Ch$	479,881	Ch$	550,189	Ch$	595,519	Ch$	609,905	ThU.S.$	861,156
Net income from discontinued operations, net of taxes												
Net income for the year	Ch$	438,144	Ch$	479,881	Ch$	550,189	Ch$	595,519	Ch$	609,905	ThU.S.$	861,156
Attributable to:												
Equity holders of the parent		438,143		479,880		550,188		595,518		609,903		861,153
Non-controlling interest		1		1		1		1		2		3
Earnings per share(2)		4.75		5.20		5.73		6.19		6.34		0.009
Earnings per ADS		2,896.33		3,170.05		3,494.31		3,774.87		3,806.79		5.38
Dividends per share(3)		3.38		3.41		3.90		3.98		3.88		0.006
Weighted average number of shares (in millions)		90,765.46		90,827.88		94,471.77		94,655.37		96,129.15		

(See footnotes below)

Table of Contents

	For the Year Ended December 31,					
	2011	2012	2013	2014	2015	2015
	(in millions of Ch$, except share and per share data)					(in thousands of U.S.$)
IFRS:						
CONSOLIDATED STATEMENT OF FINANCIAL POSITION DATA						
Cash and due from banks	Ch$ 881,146	Ch$ 684,925	Ch$ 873,308	Ch$ 915,133	Ch$ 1,361,222	ThU.S. $ 1,921,978
Transactions in the course of collection	373,639	310,077	300,026	356,185	319,679	451,371
Financial assets held-for-trading	269,861	159,682	326,921	293,458	843,574	1,191,085
Cash collateral on securities borrowed and reverse repurchase agreements	47,981	35,100	82,422	27,661	46,164	65,181
Derivative instruments	381,055	326,083	374,687	832,267	1,127,122	1,591,441
Loans and advances to banks	648,425	1,343,322	1,062,056	1,155,365	1,395,544	1,970,439
Loans to customers, net	17,023,756	18,383,958	20,441,472	21,400,775	24,022,983	33,919,269
Financial assets available-for-sale	1,471,120	1,272,316	1,681,883	1,608,796	1,007,263	1,422,206
Investments in other companies	13,196	11,674	14,407	23,043	25,849	36,498
Intangible assets	81,026	75,610	72,223	66,859	64,700	91,353
Property and equipment	207,888	205,189	197,578	205,403	215,671	304,517
Investment properties	17,079	16,698	16,317	15,936	15,042	21,239
Current tax assets						
Deferred tax assets, net	60,025	55,801	56,421	94,240	129,192	182,413
Other assets	279,804	317,765	373,987	586,555	483,591	682,806
Total assets	**Ch$ 21,756,001**	**Ch$ 23,198,200**	**Ch$ 25,873,708**	**Ch$ 27,581,676**	**Ch$ 31,057,596**	**ThU.S.$ 43,851,796**
Current accounts and other demand deposits	4,895,426	5,470,971	5,984,332	6,934,373	8,327,048	11,757,382
Transactions in the course of payment	155,424	72,684	51,898	53,049	35,475	50,089
Cash collateral on securities lent and repurchase agreements	223,202	226,396	256,766	249,482	184,131	259,984
Saving accounts and time deposits	9,282,324	9,612,950	10,402,725	9,721,246	9,907,692	13,989,173
Derivative instruments	429,913	380,322	426,110	827,123	1,079,342	1,523,978
Borrowings from financial institutions	1,690,939	1,108,681	989,465	1,098,716	1,529,627	2,159,758
Debt issued	2,388,341	3,273,933	4,366,960	5,057,956	6,102,208	8,616,017
Other financial obligations	184,785	162,123	210,926	186,573	173,081	244,382
Currents tax liabilities	3,095	23,189	7,131	19,030	24,714	34,895
Deferred tax liabilities, net						
Provisions	131,344	141,839	154,650	185,643	182,832	258,150
Employee benefits	60,634	64,545	67,944	81,515	74,791	105,601
Other liabilities	269,905	305,105	275,762	255,995	261,330	368,985
Total liabilities	**Ch$ 19,715,332**	**Ch$ 20,842,738**	**Ch$ 23,194,669**	**Ch$ 24,670,701**	**Ch$ 27,882,271**	**ThU.S.$ 39,368,394**
Total equity	**2,040,669**	**2,355,462**	**2,679,039**	**2,910,975**	**3,175,325**	**4,483,402**
Total liabilities and equity	**Ch$ 21,756,001**	**Ch$ 23,198,200**	**Ch$ 25,873,708**	**Ch$ 27,581,676**	**Ch$ 31,057,596**	**ThU.S.$ 43,851,796**

(See footnotes below)

Table of Contents

	As of December 31,				
	2011	2012	2013	2014	2015
IFRS:					
CONSOLIDATED RATIOS					
Profitability and Performance					
Net interest margin(4)	4.80%	4.68%	4.67%	5.12%	4.66%
Return on average total assets(5)	2.16	2.14	2.25	2.24	2.08
Return on average equity(6)	22.61	21.71	20.67	20.98	19.60
Capital					
Average equity as a percentage of average total assets	9.53	9.85	10.90	10.67	10.63
Bank regulatory capital as a percentage of minimum regulatory capital	245.53	269.50	274.26	279.83	275.34
Ratio of liabilities to regulatory capital(7)	12.30	11.11	10.90	10.65	10.87
Credit Quality					
Substandard loans as a percentage of total loans(8)	2.87	3.31	3.48	3.79	3.83
Allowances for loan losses as a percentage of substandard loans(8)	72.58	62.42	60.52	59.17	58.51
Provision for loan losses as a percentage of average loans	0.92	0.92	1.12	1.21	1.07
Allowances for loan losses as a percentage of total loans	2.09	2.07	2.10	2.24	2.24
Operating Ratios					
Operating expenses/operating revenue	47.89	46.31	41.90	43.77	43.71
Operating expenses/average total assets	2.93%	2.73%	2.54%	2.73%	2.48%

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(1) Translations of Chilean peso amounts into U.S. dollars are based on the exchange rate of accounting representation, or the spot exchange rate, which is determined on a daily basis by our Treasury, based on the average of the daily closing bid and offer rates reported by Bloomberg for the Santiago Stock Exchange. Thus, amounts stated in U.S. dollars as of and for the fiscal year ended December 31, 2015 have been translated from Chilean pesos based on the spot exchange rate of Ch$708.24 to U.S. $1.00 as of December 31, 2015.

(2) Earnings per share data have been calculated by dividing net income by the weighted average number of shares outstanding during the year.

(3) Dividends per share data are calculated by dividing the amount of the dividend paid during each year by the previous year s number of shares outstanding.

(4) Annualized net interest income divided by average interest earning assets. The average balances for interest earning assets, including interest and readjustments, have been calculated on the basis of our daily balances and on the basis of monthly balances for our subsidiaries. Net interest margin does not include the interest earned on trading securities, which is accounted for under Other Income (Loss), Net.

(5) Annualized net income (loss) divided by average total assets. The average balances for total assets have been calculated on the basis of our daily balances and on the basis of monthly balances for our subsidiaries.

(6) Annualized net income (loss) divided by average equity. The average balances for equity have been calculated on the basis of our daily balances.

(7) Total liabilities divided by bank regulatory capital.

(8) See Item 4. Information on the Company Selected Statistical Information Analysis of Substandard and Past-Due Loans.

Table of Contents

Exchange Rates

As a general matter, prior to 1989, Chilean law permitted the purchase and sale of foreign currency only in those cases explicitly authorized by the Central Bank. The *Ley Orgánica Constitucional del Banco Central de Chile* 18,840 (the Central Bank Act) liberalized the rules governing the purchase and sale of foreign currency. The Central Bank Act empowers the Central Bank to determine that certain purchases and sales of foreign currency specified by law must be carried out in the *Mercado Cambiario Formal* (the Formal Exchange Market). The Formal Exchange Market is composed of banks and other entities so authorized by the Central Bank. The observed exchange rate for any given day equals the average exchange rate of the transactions conducted in the Formal Exchange Market on the immediately preceding banking day, as certified by the Central Bank. Even though the Central Bank is authorized to carry out its transactions at the rates it sets, it generally uses the spot rate for its transactions. Authorized transactions by other banks are generally carried out at the spot rate.

Purchases and sales of foreign exchange are not required to be conducted in the Formal Exchange Market and therefore may be carried out in the *Mercado Cambiario Informal* (the Informal Exchange Market). There are no price limits imposed on transactions carried out in the Informal Exchange Market. On March 31, 2016, the average exchange rate in the Informal Exchange Market was Ch$671.9 per U.S.$1.00, or 0.47% lower than the observed exchange rate of Ch$675.10 per U.S.$1.00 as reported by the Central Bank on the same date.

The following table sets forth the annual low, high, average and period-end observed exchange rate for U.S. dollars for each referenced period, as reported by the Central Bank:

	Daily Observed Exchange Rate Ch$ per U.S.$(1)			
Year	**Low(2)**	**High(2)**	**Average(3)**	**Period End(4)**
		(in Ch$)		
2011	455.91	533.74	483.67	521.46
2012	469.65	519.69	486.49	478.60
2013	466.50	533.95	495.35	523.76
2014	524.61	621.41	570.37	607.38
2015	597.10	715.66	654.07	707.34
October 2015	673.91	698.72	685.31	690.34
November 2015	688.94	715.66	704.00	712.63
December 2015	693.72	711.52	704.24	707.34
2016 (through April 25)	657.90	730.31	694.66	666.80
January 2016	710.16	730.31	721.95	711.72
February 2016	689.18	715.41	704.08	689.18
March 2016	671.97	694.82	682.07	675.10
April 2016 (through April 25)	657.90	682.45	670.55	666.80

Source: Central Bank.

(1) Figures are expressed in nominal terms.

(2) Exchange rates are the actual low and high, on a day-by-day basis for each period.

(3) For full years, the average of monthly average rates during the year. For full months, the daily average during the month.

(4) As reported by the Central Bank on the first business day of the following period.

The observed exchange rate on April 25, 2016 was Ch$666.80 = U.S.$1.00.

The Federal Reserve Bank of New York does not report a noon buying rate for Chilean pesos.

Until November 30, 2011, Banco de Chile applied the observed exchange rate as reported by the Central Bank in order to translate its financial statements from Chilean pesos to U.S. dollars. However, beginning December 1, 2011, Banco de Chile adopted the exchange rate of accounting representation, or spot exchange rate, for such matters. The exchange rate of accounting representation is determined on a daily basis by our Treasury based on the average of the daily closing bid and offer rates reported by Bloomberg, for the Santiago Stock Exchange.

Table of Contents

RISK FACTORS

The risks and uncertainties described below are not the only ones that we face. Additional risks and uncertainties that we do not know about or that we currently think are immaterial may also impair our business operations in the future. Any of the following risks, if they actually occur, could materially and adversely affect our business, results of operations, prospects and financial condition.

We are also subject to market risks that are presented both in this subsection and in Note 42 to our audited consolidated financial statements as of and for the year ended December 31, 2015 appearing elsewhere in this annual report.

Risks Relating to our Operations and the Chilean Banking Industry

The growth of our loan portfolio may expose us to increased loan losses.

During the last five years, our total loan portfolio has grown at a compounded average growth rate of 11.3% per year. This expansion has been primarily fostered by growth in both residential mortgage (17.0% per year on average) and consumer loans (11.7% per year on average), and, to a lesser extent, by an expansion in commercial loans (9.2% per year on average). The growth in our loan book is aligned with our mid-term strategic goals, which seek to diversify our business model and optimize our risk-return relationship by prioritizing growth in the retail banking segment and maintaining a market-leading position in the wholesale banking segment. In this regard, we recognize that our focus on the retail banking segment may expose us to higher levels of loan losses and may require us to establish higher levels of allowances for loan losses in the future. For this reason, we are constantly striving to develop and utilize improved scoring and approval models and strengthen our collection procedures to mitigate the risks associated with business growth. For the year ended December 31, 2015, our loan portfolio was Ch$24,573,426 million, which represented a 12.3% annual increase as compared to the Ch$21,891,333 million we recorded as of December 31, 2014. Similarly, our allowances for loans losses increased 12.2% from Ch$490,558 million in 2014 to Ch$550,443 million in 2015. As a result, our ratio of allowances for loan losses to total loans remained constant at 2.24% during 2014 and 2015.

Our loan portfolio may not continue to grow at the same or similar rate.

We cannot assure you that our loan portfolio will continue to grow at the same rates as it has in the past. The loan portfolio of the Chilean banking industry has grown at a compounded average growth rate of 12.3% over the last five years (excluding the operations of subsidiaries abroad). This expansion has been fostered by an overall effort of all market participants to increase banking penetration of lower and middle income segments, as well as small and medium-sized companies by broadening their value offerings. As a result, loan growth has mainly been prompted by the expansion in both mortgage loans (13.2% per year on average) and consumer loans (12.8% per year on average), and to a lesser extent by growth in commercial loans (11.8% per year on average). These efforts have also been supported by the growth of the Chilean economy registered over the same five-year period. However, the economic slowdown of the local economy over the last two years has also affected growth in the loan industry, as investment and consumption declined. In this regard, a sharp slowdown or negative gross domestic product (GDP) growth, as well as a change in the behavior of banking customers, could adversely affect the growth rate of the industry and, therefore, the expansion of our loan portfolio. Similarly, this could affect our credit quality indicators and, accordingly, lead us to increase the allowances for loan losses. For more information, see Item 4. Information on the Company Regulation and Supervision and Item 4. Information on the Company Selected Statistical Information.

Restrictions imposed by regulations may constrain our operations and thereby adversely affect our financial condition and results.

We are subject to regulation by the SBIF. In addition, we are subject to regulation by the Central Bank with respect to certain matters, including interest rates and foreign exchange transactions. See Item 4. Information on the Company Regulation and Supervision.

Pursuant to the Ley General de Bancos (the General Banking Law) all Chilean banks may, subject to the approval of the SBIF, engage in certain non-banking businesses approved by the law. The SBIF s approval will depend on the risk of the activity and the strength of the bank. Furthermore, the General Banking Law imposes on the Chilean banking system a modified version of the capital adequacy guidelines issued by the Basel Committee on Banking Regulation and Supervisory Practices (the Basel Committee) and limits the discretion of the SBIF to deny new banking licenses.

Regarding Basel III, the SBIF has suggested these guidelines may be implemented in Chile in the future, which could impose new requirements for all Chilean banks, including us. In fact, the Chilean Ministry of Finance has announced that the implementation of Basel III is a priority for the current administration and, therefore, a set of amendments to the General Banking Law will be presented for approval to the Chilean congress. In addition to Basel III, the Finance Ministry has announced that amendments to the General Banking Act will also include changes in the corporate governance of the SBIF to reinforce the independence of the local regulator, while establishing a dispute resolution system for Chilean banks. Accordingly, during 2015, the Chilean Ministry of Finance convened a working-group of financial experts to analyze and recommend modifications to the General Banking Act. This working-group released a final report in January 2016 recommending that modifications to the General Banking Act should be phased-in. Based on this report, the Ministry of Finance has announced that a bill reforming the Chilean Banking Act would be sent to the Chilean congress during 2016. There is no certainty as to when these changes to the General Banking Act could go into effect. Despite this, we do not expect this regulatory body will affect our profitability or results of operations in 2016. Nevertheless, we cannot assure you that these new rules will not affect our return on equity in the future, if adopted.

During 2015, the Chilean Central Bank published a final version of new liquidity standards for local banks, based on Basel III guidelines. The SBIF is the institution empowered to put these guidelines into practice and monitor them on an ongoing basis. Accordingly, the SBIF released a set of new liquidity requirements for banks (Circular No. 3,585) on July 31, 2015. These guidelines established reporting requirements for local banks with respect to management and measurement of banks liquidity position, compelling banks to share financial information with the regulator and the general public regarding liquid assets, liabilities, concentration of financial instruments by type of liability and counterparty, weighted maturity by type of liability, among others. Also, aligned with Basel III, these new rules require banks to report and monitor liquidity ratios such as Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). The first stage of these new liquidity requirements is intended to improve the information in quantity and quality about the actual situation of banks without imposing specific limits, except liquidity mismatches for 30-day and 90-day periods, for which thresholds are already in place. Regulatory limits are expected to be defined and implemented by 2017. Accordingly, although this new regulatory body will not affect our operations and results for the year ended December 31, 2016, we cannot be sure that new liquidity requirements will not have a material impact on our financial condition or results of operations in the future. See Item 4. Information on the Company Regulation and Supervision.

As for credit risk allowances, on December 30, 2014, the SBIF published a set of amendments to the regulations on allowances for potential loan losses. These new rules established a standardized method for calculating provisions for loan losses for residential mortgage loans, based on past-due behavior and loan-to-value ratios, while providing new and more precise definitions for impaired loans and new requirements to remove loans from such portfolio. In addition, this set of rules also addressed the possibility of putting into practice standardized credit risk provisioning models for consumer and commercial loan portfolios, evaluated on a grouped basis, in the future. Lastly, the new guidelines also introduced changes to the treatment of provisions related to factoring loans. This new set of rules went into effect on January 1, 2016. See Item 4. Information on the Company Regulation and Supervision. Nevertheless, it is important to mention that the implementation of standardized credit risk provisioning models would only have an effect if any on our results of operations or financial condition prepared under Chilean GAAP, which differ to some extent from the International Financial Reporting Standards (the IFRS) as issued by the International Accounting Standards Board (the IASB). The adoption of these guidelines will not have any impact on our results of operations or financial condition under IFRS. Conversely, the changes and new definitions for impaired loans will have an effect on our results of operations under both Chilean-GAAP and IFRS as issued by the IASB. However, believe that this effect will not have a material impact on our results of operations for the year ended December 31, 2016.

Additionally, in recent years the Chilean government has focused on consumer protection. Since 2010 several legal and administrative regulations have been enacted, amended and revoked to reinforce consumer protection and the relationship of financial institutions. For example, new modifications to the Consumer Protection

Table of Contents

Law (Law No. 19,496) are currently being discussed by the Chilean congress, which seek to improve the existing Consumer Protection Agency (SERNAC) by providing SERNAC with the authority to: (i) enact rules and guidelines, (ii) interpret legal or administrative regulations, (iii) preside over proceedings against financial institutions and (iv) impose fines, exercise class actions, and carry out collective mediations, among others. In connection with the modifications and to ensure the due application and exercise of SERNAC s new authority, the Chilean government is currently considering the application of Chinese Walls between SERNAC s team members enacting rules and guidelines and interpreting legal or administrative regulations and the SERNAC s team members imposing fines.

Although the final law has not been passed, the Chilean senate has approved some changes and the Chilean government has introduced amendments to: (i) enhance SERNAC s corporate governance, (ii) provide consumers with adequate tools and improved access to file claims for violations of the Consumer Protection Law and (iii) impose fines for violations of the Consumer Protection Law, among others. Although this bill is expected to be passed in 2016, there is no certainty as to when such law could go into effect. In addition, as the final contents and extent of the law remain unknown, we cannot assure you that this law will not substantially affect the banking industry. Furthermore, we cannot assure you that regulators will not impose more restrictive limitations in the future on the activities of banks, including us, than those that are currently in effect. Any such change could have a material adverse effect on our results of operations or financial condition in a fashion that we cannot determine in advance. For more information, see Item 4. Information on the Company Regulation and Supervision.

In September 2014, the Chilean government enacted a law reforming the Chilean tax system. This tax reform (Law No. 20,780) gradually increases the first category tax or corporate tax rate between 2014 and 2018 while establishing two alternative tax regimes from 2017 onwards: (i) the Semi-Integrated Regime and (ii) the Attribution Regime. Nevertheless, following this reform in the Chilean taxation system, in February 2016, a new tax law was enacted (Law No. 20,899), which simplified the previously mentioned reform (Law No. 20,780) by limiting the possibility of choosing between the two alternative tax regimes. According to this new law, publicly-traded companies will only be subject to a Semi-Integrated Regime. Modifications introduced by these two laws also affected taxes levied on cash dividends received by investors that hold shares of common stock or ADS from 2017 onwards. Although these reforms are currently in place, some rulings associated with their implementation are still under review by the Chilean Internal Revenue Service (the Chilean IRS). Accordingly, changes to or statements regarding the interpretation of new taxation guidelines by the Chilean IRS could affect our results of operations, performance indicators or the effective return earned by stockholders or ADS holders in a fashion that we cannot determine in advance. For more information, see Item 4. Information on the Company Regulation and Supervision Amendments to the Reform that Modified the Chilean Tax System and Item 10. Additional Information Taxation Chilean Tax Considerations.

Future changes in accounting standards could impact our results.

The IASB, or other regulatory bodies, periodically introduce modifications to financial accounting and reporting standards under which we prepare our consolidated financial statements. These changes can materially impact the means by which we report financial information, affecting our results of operations. Also, we could be required to apply new or revised standards retroactively. Currently, we cannot assure you that future changes in financial accounting and reporting standards will not substantially affect our results of operations or performance indicators, as we do not know the extent of future standards.

Increased competition and industry consolidation may adversely affect our operations.

The Chilean market for financial services is highly competitive. We compete with Chilean and foreign banks, with Banco del Estado de Chile, which is government-owned, and with large department stores that are allowed to grant consumer loans to a large portion of the Chilean population, especially in the low and middle-income segments, through credit card financing. In addition, the retail segment (which encompasses individuals and small and medium-sized companies) has become the target market of several banks, since banking penetration is still in progress in Chile, particularly in this segment. Accordingly, competition within this market is increasing as banks are continuously incorporating new and tailored products and services, while striving to improve service quality. As a result, net interest margins (once deducted provisions for loan losses) in these sub-segments are likely to decline over time.

We also face competition from non-banking competitors in some of our credit products, especially credit cards and installment loans. In these markets, competition from non-banking companies like large department stores, private compensation funds and saving and credit cooperatives has become increasingly significant. In addition, we face competition from other types of lenders, such as non-banking leasing, factoring and automobile financing companies (especially in credit products), as well as mutual funds, pension funds and insurance companies within the market for savings products and mortgage loans. Nevertheless, banks continue to be the main suppliers of leasing, factoring and mutual fund management, while growing quickly in insurance brokerage services. However, we cannot assure you that this trend will continue in the future.

Lastly, in the past, increasing competition within the Chilean banking industry has been accompanied by a consolidation wave and the entry of international players to the system through multiple mergers and acquisitions. We expect these trends will continue and result in the creation of larger and stronger banking conglomerates offering a wide range of products and services while targeting most of the segments in the Chilean banking market. These trends may adversely impact our results of operations as they may translate into higher interest rates paid on deposits and lower interest rates earned on loans, resulting in decreased net interest margins. For more detail regarding past and recent changes in the Chilean banking industry see Item 4. Information on the Company Business Overview Competition.

Our exposure to certain segments of the retail market could lead to higher levels of total past-due loans and subsequent charge-offs.

Although we have historically been focused on wholesale banking, over the last five years we have reoriented our commercial strategy to increase penetration of the retail banking segment while maintaining our market-leading position in wholesale banking segments. In fact, according to our management information systems, the share of the retail banking segment in our total loan book has increased from 47.9% in 2010 to 55.1% in 2015. Although this trend has been associated with expansion in middle and higher income personal banking, our retail banking segment is also composed of small and medium-sized companies (approximately 11.3% of our total loan book as of December 31, 2015, which consists of companies with annual sales of up to Ch$1,600 million) and, to a lesser extent, of lower-income individuals (approximately 3.3% of our total loan book as of December 31, 2015, which consists of individuals with monthly incomes ranging from Ch$170,000 to Ch$500,000). Since these customers are likely to be more severely affected by adverse developments in the Chilean economy than large corporations and higher-income individuals, we may be exposed to higher levels of past-due loans and subsequent write-offs, in the future, which could result in materially higher allowances for loan losses that could adversely affect our results of operations.

As of December 31, 2015, our past-due loans (loans 90 days or more past-due) reached Ch$299,792 million, which represented a 9.8% annual increase as compared to the Ch$272,983 million recorded in 2014. These figures translated into past-due ratios (loans 90 days or more past-due over total loans) of 1.25% in 2014 and 1.22% in 2015. According to our management information systems, as of December 31, 2015 our past-due loans (loans 90 days or more past-due) were composed of 83.9% retail banking 90 days or more past-due loans (consumer and residential mortgage loans to individuals, as well as commercial loans to small and medium sized companies) and 16.1% wholesale banking 90 days or more past-due loans (commercial loans to large companies and corporations). During the prior fiscal year, our past-due loans (90 days or more) portfolio was composed of 80.6% retail banking past due loans (90 days or more) and 19.4% wholesale banking past due loans (90 days or more).

The annual increase of Ch$26,809 million in the amount of past-due loans (loans 90 days or more past-due) was mainly attributable to the retail banking segment, including both SME and personal banking. In fact, according to our management information system, past-due loans (loans 90 days or more past-due) in retail banking increased by approximately Ch$30,908 million in 2015 as compared to 2014, whereas past-due loans (loans 90 days or more past-due) in the wholesale banking segment decreased by approximately Ch$4,099 million on an annual basis. This is in line with the growth displayed by both segments within our total loan book over time, as well as higher delinquency evidenced in mortgage loans and loans granted to small and medium sized companies. This has been aligned with a less robust economic backdrop following the economic slowdown of the local economy that began in 2013 and continued through 2014 and 2015. Although certain indicators that directly affect the retail banking segment such as unemployment remained constant at low levels during 2015, there has been a counterbalance between the employed and self-employed work force. Similarly, real wages have decelerated over the last two years. Moreover, consumer confidence has declined as individuals continue to hold a negative outlook with respect to the local economy. In light of these trends, we have tightened the entire credit process, from assessment to collection, while

Table of Contents

introducing stricter requirements related to collaterals, financial burden, loan-to-value ratios, etc. These measures have enabled us to maintain delinquency at adequate levels, despite loan growth and the economic slowdown, which has resulted in relatively low levels of provisions for loan losses. Nonetheless, we cannot assure you the trend in past-due loans (90 days or more) will not continue if global or local economic conditions deteriorate in the future.

For more information, see Item 4. Information on the Company Business Overview Principal Business Activities.

One of our affiliates may be obligated to sell shares of our stock in the public market if we do not pay sufficient dividends.

As of December 31, 2015, *Sociedad Administradora de la Obligación Subordinada S.A.* (SAOS), our affiliate, held 29.75% of our shares as a consequence of our 1996 reorganization. This reorganization was due in part to the 1989 repurchase by the Central Bank of certain non-performing loans that we had previously sold to the Central Bank and later exchanged for subordinated debt without a fixed term. For more information, see Item 4. Information on the Company History and Development of the Bank History The 1982-1983 Economic Crisis and the Central Bank Subordinated Debt.

In exchange for assuming the Central Bank debt, SAOS received from SM-Chile S.A. (SM-Chile), a holding company that controls SAOS, a stake of 63.6% of our shares as collateral for this debt. Dividends received from us are the sole source of SAOS s revenues, which in turn must be used to repay this debt. To the extent distributed dividends were not sufficient to pay the amount due on this debt, SAOS is permitted to maintain a cumulative deficit balance with the Central Bank that SAOS commits to pay with future dividends. If this cumulative deficit balance exceeds 20% of our paid-in capital and reserves, the Central Bank may require SAOS to sell a sufficient number of our shares to pay the entire amount of the accumulated deficit. As of March 31, 2016, SAOS maintained a surplus with the Central Bank of Ch$603,592 million, equivalent to 23.0% of our paid-in capital and reserves as of the same date.

Furthermore, if our shareholders decide to retain and capitalize all or part of our annual net income in order to finance future growth and to distribute stock dividends, the Central Bank may require us to pay in cash to SAOS the portion of net income corresponding to its economic stake in our shares. If we distribute stock dividends and the Central Bank does not require us to pay that portion in cash, the shares received by SAOS must be sold by SAOS within the following 12 months. SM-Chile shareholders will have a right of first refusal with respect to that sale.

If SAOS is required to sell shares of our stock for any of the aforementioned circumstances in the public market, that sale could adversely affect the prevailing market price of our stock.

The results of our operations are affected by interest rate volatility and inflation.

The results of our operations depend to a great extent on our net interest income, which represented 73.9% of our total operating revenues in 2015. Changes in nominal interest rates and inflation could affect the interest rates earned on our interest-earning assets differently from the interest rates paid on our interest-bearing liabilities, resulting in net income reduction. Inflation and interest rates are sensitive to several factors beyond our control, including the Central Bank s monetary policy, deregulation of the Chilean financial sector, local and international economic developments and political conditions, among other factors. Any volatility in interest rates could have a material adverse effect on our financial condition and results of operations.

The average annual short-term nominal interest rate in Chile for 90 to 360 day deposits received by Chilean financial institutions was 5.20% in 2013, 3.91% in 2014, and 3.77% in 2015. The average long-term nominal interest rate based on the interest rate of the Central Bank s five-year bonds traded in the secondary market was 5.19% in 2013, 4.43% in 2014 and 4.14% in 2015.

Inflation in Chile has been moderate in recent years, especially in comparison with periods of high inflation experienced in the 1980s and 1990s. High levels of inflation in Chile could adversely affect the Chilean economy, consumer purchasing power, household consumption and investment in machinery and equipment and, therefore, the demand for financing and our business. The annual inflation rate (as measured by annual changes in the CPI and

Table of Contents

as reported by the Chilean National Institute of Statistics) during the last five years and the first three months of 2016 was:

Year	Inflation (CPI Variation)
2011	4.4
2012	1.5
2013	3.0
2014	4.6
2015	4.4
2016 (through March 31)	1.1%

Source: Chilean National Institute of Statistics

Although we benefit from a higher than expected inflation rate in Chile due to the structure of our assets and liabilities (we have a significant net asset position indexed to the inflation rate), significant changes in inflation with respect to current levels could adversely affect our results of operations and, therefore, the value of both our shares and ADSs.

For more information, see Item 5. Operating and Financial Review and Prospects Operating Results Overview Inflation and Item 5. Operating and Financial Review and Prospects Operating Results Overview Interest Rates.

Operational problems, errors, criminal events or terrorism may have a material adverse impact on our business, financial condition and results of operations.

As all large financial institutions, we are exposed to many operational risks, including the risk of fraud by employees and outsiders, failure to obtain suitable internal authorizations, failure to properly document in-person and online transactions, equipment failures, mistakes made by employees and natural disasters, such as earthquakes, tsunamis and floods. Furthermore, we are exposed to criminal events or terrorist attacks resulting in physical damage to our buildings (including our headquarters, offices, branches and ATMs) and/or injury to customers, employees and others. Although we maintain a system of operational controls composed of both trained staff and world-class technological resources, as well as comprehensive contingency plans and security procedures, there can be no assurances that operational problems, errors, criminal events or terrorist attacks will not occur and that their occurrence will not have a material adverse impact on our results of operations, financial condition and the value of our shares and ADSs.

Cybersecurity events could negatively affect our reputation or results of operations and may result in litigation.

We have access to large amounts of confidential financial information and hold substantial financial assets belonging to our customers as well as to us. In addition, we provide our customers with continuous online access to their accounts and the possibility of transferring substantial financial assets by electronic means while purchasing goods or withdrawing funds, in Chile and abroad with credit and debit cards issued by us. Accordingly, cybersecurity is a material risk for us.

We depend on a variety of Internet-based data processing, communication, and information exchange platforms and networks. We cannot assure you that all of our systems are entirely free from vulnerability. Additionally, we enter into contracts with several third parties to provide our customers with data processing and communication services. Therefore, if information security is breached, or if one of our employees or external service providers breaches compliance procedures, information could be lost or misappropriated, which may affect our results of operations, damage others or result in potential litigation.

We are also exposed to cyber-attacks and other cybersecurity incidents in the normal course of business. There has recently been an increased level of attention focused on cyber-attacks against large corporations that include, but are not limited to, obtaining unauthorized access to digital systems for purposes of misappropriating cash, other assets or sensitive information, corrupting data or causing operational disruption. Cybersecurity incidents such as computer break-ins, phishing, identity theft and other disruptions could negatively affect the

Table of Contents

security of information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability to us in excess of insurance coverage, and may cause existing and potential customers to refrain from doing business with us. Although we, with the help of service providers, intend to continuously implement security technology devices and establish operational procedures to prevent such damage, we cannot assure you that these security measures will be successful.

Any downgrade in Chile s or our credit rating could increase our cost of funding, affecting our interest margins, results of operations and profitability.

Our current credit ratings determine the cost and the terms upon which we are able to obtain funding in the ordinary course of business. Rating agencies regularly evaluate us by taking into account diverse factors, including our financial strength, the business environment and the economic backdrop in which we operate. Thus, methodologies used by rating agencies evaluate Chile s sovereign debt ratings when determining our ratings. Accordingly, if Chile s sovereign debt is downgraded, our credit rating could also be downgraded to an equivalent level.

Any downgrade in our debt credit ratings could result in higher borrowing costs for us while requiring us to post additional collateral or limiting our access to capital markets. All of these factors could adversely impact our commercial business by affecting our ability to: (i) sell or market our products, (ii) obtain long-term debt and engage in derivatives transactions, (iii) retain customers who need minimum ratings thresholds to operate with us, (iv) maintain derivative contracts that require us to have a minimum credit rating and (v) enter into new derivative contracts, which could impact our market risk profile, among other effects. Any of these factors could have an adverse effect on our liquidity, results of operations and financial condition.

Due to the volatility in the financial markets in recent years and concerns about the soundness of developed and emerging economies, we cannot assure you that rating agencies will maintain our and Chile s sovereign debt current ratings and outlooks.

Risks Relating to our ADSs

Our principal shareholders may have interests that differ from those of our other shareholders and their significant share ownership may have an adverse effect on the future market price of our ADSs and shares.

As of April 25, 2016, LQ Inversiones Financieras S.A. (LQIF), a holding company beneficially owned by Quiñenco S.A. and Citigroup Chile S.A., holds directly and indirectly approximately 51.1% of the voting rights of our shares. These principal shareholders are in a position to elect a majority of the members of our board of directors, direct our management and control all matters decided by a shareholder vote, including the approval of fundamental corporate transactions.

Actions by our principal shareholders with respect to the disposition of the shares or ADSs they beneficially own, or the perception that such actions may occur, may adversely affect the trading price of our shares on the various stock exchanges on which they are listed and, consequently, the market price of the ADSs.

There may be a lack of liquidity and a limited market for our shares and ADSs.

While our ADSs have been listed on the New York Stock Exchange (the NYSE) since the first quarter of 2002, there can be no assurance that an active trading market for our ADSs will be sustained. During 2015, a daily average volume of approximately 50,366 of our American Depositary Receipts (ADRs) were traded on the NYSE, according to data provided by Bloomberg. Although our shares are traded on the Santiago Stock Exchange, the Valparaiso Stock Exchange and the Chilean Electronic Stock Exchange, the Chilean market for our shares in Chile is small and somewhat illiquid. As of April 25, 2016, approximately 31.3% of our outstanding shares were held by shareholders other than our principal shareholders, including LQIF, SM-Chile and SAOS, considering direct ownership.

If an ADS holder withdraws the underlying shares from the ADR facility, the small size of the market, its limited liquidity, as well as our concentrated ownership, may impair the ability of the ADS holder to sell the shares

Table of Contents

in the Chilean market in the amount and at the price and time such holder desires, and could increase the volatility of the price of our ADSs.

ADS holders may be unable to exercise voting rights at shareholders meetings and preemptive rights.

ADS holders may exercise voting rights associated with common stock only in accordance with the deposit agreement governing our ADSs. Accordingly, ADS holders will face practical limitations when exercising their voting rights because ADS holders must first receive a notice of a shareholders meeting from the Depositary and may then exercise their voting rights by instructing the Depositary, on a timely basis, on how they wish to vote. This voting process necessarily will take longer for ADS holders than for direct common stock holders, who are able to exercise their vote by attending our shareholders meetings. Therefore, if the Depositary fails to receive timely voting instructions from some or all ADS holders, the Depositary will assume that ADS holders agree to give a discretionary proxy to a person designated by us to vote their ADSs on their behalf. Furthermore, ADS holders may not receive voting materials in time to instruct the Depositary to vote. Accordingly, ADS holders may not be able to properly exercise their voting rights.

Furthermore, the *Ley Sobre Sociedades Anónimas No. 18,046* (the Chilean Corporations Law) and the *Reglamento de Sociedades Anónimas* (the Chilean Corporations Regulations) require that whenever we issue new common stock for cash, we grant preemptive rights to all of our shareholders (including holders of ADSs) to purchase a sufficient number of shares to maintain their existing ownership percentage. Such an offering would not be possible unless a registration statement under the Securities Act were effective with respect to such rights and common stock or an exemption from the registration requirements thereunder were available.

We may elect not to make a registration statement available with respect to the preemptive rights and the common stock, in which case you may not be able to exercise your preemptive rights. If a registration statement is not filed, the depositary will sell such holders preemptive rights and distribute the proceeds thereof if a premium can be recognized over the cost of any such sale.

Developments in international financial markets may adversely affect the market price of the ADSs and shares.

The market price of our ADSs and shares may be adversely affected by volatility in international financial markets and adverse global economic conditions. The market for Chilean securities and the Chilean economy as a whole are influenced by economic and market conditions in the United States, Europe and certain emerging market economies, especially Asian countries, and also economic as well as political developments in Latin American countries. Although economic conditions are different in each country, investors reactions to specific issues in one country may affect the financial markets in others, including Chile. Therefore, unfavorable developments in other countries especially in developed economies and Chile s main commercial partners may adversely affect the market price of our ADSs and shares.

In particular, since August 2007, the worldwide financial markets have experienced various events of significant volatility resulting from the announcement, by several U.S. banks and financial institutions, of significant write-downs related to their exposure to mortgage-backed securities and other financial instruments. This situation, also known as the subprime crisis, translated into several and significant government bail-outs for important banks worldwide, bankruptcy for some others and an active M&A market in the financial industry intended to rescue failing banks and maintain the confidence of investors and customers, as well as avoiding bank runs. Although the Chilean economy was not directly exposed to the U.S. housing credit market and historically we have not directly held any assets related to such financial instruments, the subprime crisis impacted the Chilean economy by the end of 2008, including banking activity. Currently, the U.S. economy seems to be overcoming the effects of the subprime crisis, as evidenced by recovering mid-term growth rates, improving employment rates and increasing consumption indicators. Consequently, after seven years of an expansionary monetary policy the U.S. Federal Reserve is tapering the quantitative easing programs intended to increase the liquidity (money supply) and reduce interest rates by purchasing government and non-government securities from the market. Accordingly, in December 2015, the U.S. Federal Reserve increased the marginal standing facility rate from the range of 0%-0.25% to 0.25%-0.50%. Although this decision was perceived as a positive recovery signal worldwide, we cannot assure you that past developments will not occur again in the future or that any future developments in international markets will not affect us, including our results of operations and, consequently, the market price of our ADSs and shares.

Table of Contents

Financial deterioration in certain European countries was another indirect effect of the subprime crisis that occurred in the United States, resulting in numerous government bail-outs for distressed banks and also an in-depth revision to banking regulations and capital requirements. So far, main European economies have not been able to overcome low GDP growth rates and deflationary pressures, in spite of consecutive monetary stimuli programs executed by the European Central Bank. During 2015, new doubts about the financial condition of European banks arose. Similarly, the fiscal condition of many countries remained weak. Even though our exposure to customers from troubled European countries such as Portugal, Ireland, Italy, Greece and Spain is only 0.03% of our total loans as of December 31, 2015, we cannot assure you that volatility in global financial markets due to the uncertainty regarding the fiscal condition of certain European countries will not continue and affect the Chilean economy and consequently the financial condition and results of operations of the entire Chilean banking system, including us. Accordingly, the price of our ADS could be adversely affected by a new financial turmoil in the Eurozone, political issues, armed conflicts, uncertainty due to terrorism, a slower than expected recovery, or a deterioration in healthier economies, such as Germany, that could translate into increasing volatility and uncertainty all over the world.

Similarly, recent developments in the Chinese economy have led to increasing volatility in the financial markets and a sharp downward trend in international commodity prices. The current Chinese economic slowdown has affected the Chilean economy due to the importance of copper exports and overall mining activity to local economic growth. Although our exposure to the Chilean mining sector does not exceed 2.3% in terms of total loans, we cannot assure you that new developments affecting the Chinese economy will not have a material impact on Chilean economic activity and, therefore, in the local banking industry that could lead to lower loan growth for us and the Chilean financial industry as a whole, affecting the price of our shares and ADS.

In the past, Chile has imposed controls on foreign investment and repatriation of investments that affected investments in, and earnings from, our ADSs.

Equity investments held in Chile by non-Chilean residents have historically been subject to various exchange control regulations that restrict the repatriation of investments and earnings from Chile. In April 2001, the Central Bank eliminated most of the regulations affecting foreign investors, although they still have to provide the Central Bank with information related to equity investments and must conduct such operations within the Formal Exchange Market. Additional Chilean restrictions applicable to holders of our ADSs, the disposition of the shares underlying them, the repatriation of the proceeds from such disposition or the payment of dividends may be imposed in the future, and we can neither determine in advance nor advise you as to when or how those restrictions could impact you, if imposed.

If for any reason, including changes in Chilean law, the depositary for our ADSs were unable to convert Chilean pesos to U.S. dollars, investors would receive dividends and other distributions, if any, in Chilean pesos.

Risks Relating to Chile

Our growth and profitability depend on the level of economic activity in Chile.

Our core business and transactions are with customers doing business in Chile. Accordingly, our ability to grow our business volumes and results of operations, as well as enhance our financial condition, in general, depends on the dynamism of the Chilean economy and specific macroeconomic variables such as inflation, unemployment, interest rates, consumption and investment. The global financial crisis of 2008 that dramatically affected the economic growth in developed countries also affected the Chilean economy by the end of 2008 and during the first three quarters of 2009. This translated into a subsequent slowdown in the local banking industry due to lower levels of consumption and deteriorated credit quality in loan portfolios prompted by unemployment and financial stress experienced by certain economic sectors. Conversely, between 2010 and 2012 the local economy and the banking industry evidenced a significant upturn, fostered by real GDP growth that averaged 5.7% per year, mainly as a result of the recovery in consumption and investment, as well as higher fiscal spending associated with the reconstruction process after a significant earthquake in 2010. During 2013, the Chilean economy entered into a moderate slowdown by recording a 4.0% GDP expansion, which deepened throughout 2014 as both corporate and individual confidence continued to deteriorate. The slowdown was explained in part by both slower growth of Chile s main commercial partners, especially China, and uncertainty associated with diverse reforms presented by the recently appointed administration that affected investment and consumption. Accordingly, the Chilean economy grew by only 2.1% in 2015, which was influenced by a 1.5% decrease in investment that was offset by a moderate expansion of 1.5% in private consumption. Although Chilean economic growth continues to be positive, we cannot assure you that the local economy will continue expanding in the future or that developments affecting the Chilean economy and the local banking industry will not materially affect our business, financial condition or results of operations. For more information, see Item 5. Operating and Financial Review and Prospects Operating Results Overview .

Currency fluctuations could adversely affect the value of our ADSs and any distributions on the ADSs.

The Chilean Government s economic policies and any future changes in the value of the Chilean peso with respect to the U.S. dollar could affect the dollar value of our common stock and our ADSs. Given the floating exchange rate regime that exists in Chile, the Chilean peso has been subject to large fluctuations in the past and could continue this trend in the future. According to information published by the Chilean Central Bank, between December 31, 2014 and December 31, 2015, the value of the U.S. dollar relative to the Chilean peso increased by approximately 16.9%, as compared to the increase of 15.3% recorded in the period from December 31, 2013 to December 31, 2014. See Item 3. Key Information Selected Financial Data Exchange Rates.

Chilean trading in the shares underlying our ADSs is conducted in Chilean pesos. Cash dividends associated with our shares of common stock are received in Chilean pesos by the depositary, which then converts such amounts to U.S. dollars at the then-prevailing exchange rate for making payments in respect of our ADSs. If the value of the U.S. dollar increases relative to the Chilean peso, the dollar value of our ADSs and any distributions to be received from the depositary will decrease. In addition, the depositary will incur customary currency conversion costs (to be borne by the holders of our ADSs) in connection with the conversion and subsequent distribution of dividends or other payments. For more information, see Item 10. Additional Information Exchange Controls.

Our results of operations may be affected by fluctuations in the exchange rates between the Chilean peso and the U.S. dollar despite our policy and Chilean regulations related to the general avoidance of material exchange rate mismatches. In order to reduce the effect of exchange rate mismatches we enter into foreign exchange derivative transactions that hedge our exposure. As of December 31, 2015, our foreign currency-denominated assets and Chilean peso-denominated assets, which contain repayment terms linked to changes in foreign currency exchange rates, exceeded our foreign currency-denominated liabilities and Chilean peso-denominated liabilities, which contain repayment terms linked to changes in foreign currency exchange rates, by an amount of Ch$6,890 million, or 0.26% of our paid-in capital and reserves.

We may decide to change our policy regarding exchange rate mismatches. Regulations that limit such mismatches may also be amended or eliminated by regulatory institutions. Higher exchange rate mismatches will increase our exposure to the devaluation of the Chilean peso, and any such devaluation may impair our capacity to service foreign-currency obligations and may, therefore, materially and adversely affect us, our financial condition and results of operations. Additionally, the economic policies of the Chilean Government and any future fluctuations of the Chilean peso with respect to the U.S. dollar could adversely affect our financial condition and results of operations.

Chile has corporate disclosure standards different from those you may be familiar with in the United States.

Chilean disclosure requirements for publicly listed companies differ from those in the United States in some significant aspects. In addition, although Chilean law imposes restrictions on insider trading and price manipulation, the Chilean securities markets are not as highly regulated and closely supervised as the U.S. securities markets. Accordingly, the information about us available to you will not be the same as the information available to shareholders of a U.S. company. For more information, see Item 16G. Corporate Governance.

Chilean law may provide shareholders with fewer and less well-defined rights.

Our corporate affairs are governed by our *estatutos* (bylaws) and the laws of Chile. Under such laws, our shareholders may have fewer or less well-defined rights than they might have as shareholders of a corporation incorporated in a U.S. jurisdiction. For example, our shareholders would not be entitled to appraisal rights in the event of a merger or other business combination undertaken by us.

Table of Contents

Labor strikes or slowdowns could adversely affect our operations because the majority of our employees belong to labor unions.

We are a party to collective bargaining agreements with various labor unions. Disputes with regard to the terms of these agreements or our potential inability to negotiate acceptable contracts with these unions could result in, among other things, strikes, work stoppages, or other slowdowns by the affected workers. If unionized workers were to engage in a strike, work stoppage, or other slowdown, or other employees were to become unionized, we could experience disruption of our operations or higher ongoing labor costs, either of which could have a material adverse effect on our results of operations. See Item 6. Directors, Senior Management and Employees Employees.

On December 29, 2014, the Chilean government sent a labor reform bill to the Chilean congress for discussion and approval. The government stated that this bill was intended to strengthen and give more power to Chilean unions. As a result, unions would enhance their negotiation position in collective bargaining processes. In addition, the reform modifies the current labor framework by introducing certain flexibility in the contractual relationship between workers and companies. Although the bill was approved by the Chilean congress on April 6, 2016, the Chilean Constitutional Court on April 27, 2016, has decided that certain provisions of the bill are unconstitutional; however, the resolution has yet to be published. Accordingly, the revised bill, excluding the provisions rejected by the Chilean Constitutional Court, must be submitted to the Chilean government for its promulgation or veto according to its authority. Consequently, there is no certainty about the outcome of this process and how this bill could affect the banking business or our results, if enacted.

Table of Contents

Item 4 Information on the Company

History and Development of the Bank

Overview

We were founded in 1893, and we have been, for much of our history, among the largest and most profitable Chilean banks in terms of return on average assets and average equity in Chile. Our core business is commercial banking in Chile, providing traditional banking products and specialized financial services to our diversified customer base of individuals and companies.

Our legal name is Banco de Chile and we are organized as a banking corporation under the laws of Chile and were licensed by the SBIF to operate as a commercial bank on September 17, 1996. Our main executive offices are located at Paseo Ahumada 251, Santiago, Chile, our telephone number is +56 (2) 2637-1111 and our website is www.bancochile.cl. Our representative in the United States is Puglisi & Associates, with offices at 850 Library Avenue, Suite 204, Newark, Delaware 19711.

We are a full service financial institution that provides, directly and indirectly through our subsidiaries, a wide variety of lending and non-lending products and services to all segments of the Chilean financial market, providing our customers with powerful, differentiated and comprehensive value offerings. Our business is not materially affected by seasonality. We organize our operations and deliver our services to our customers through the following four principal business segments:

(i) retail banking;

(ii) wholesale banking;

(iii) treasury and money markets; and

(iv) subsidiaries.

Through our retail banking segment, we provide our individual customers with credit cards, installment loans and residential mortgage loans, as well as traditional deposit services, such as current accounts, demand deposits, demand accounts, savings accounts and time deposits. Our retail customers also include micro, small and medium sized companies that we serve by providing them with short and long term financing, as well as diverse deposit and cash management solutions. In addition, our banking services for wholesale customers include commercial loans (including factoring and leasing), trade finance, capital markets services, cash management and non-lending services, such as payroll, payment and collection services, as well as a wide range of treasury, financial advisory and risk management products.

In 2008, we enhanced our value offerings by entering into a strategic partnership with Citigroup Inc., as a result of our merger with Citibank Chile.

As of December 31, 2015, we also offered international banking services through our Trade Services subsidiary in Hong Kong, our representative office in Beijing, and a worldwide network of correspondent banks. However, in 2014, we voluntary began a dissolution process for our Trade Services subsidiary in Hong Kong, which should be completed during the second half of 2016.

In addition to our traditional banking operations, our subsidiaries and affiliates permit us to offer a variety of non-banking but specialized financial services including securities brokerage, mutual funds management, investment banking, insurance brokerage, securitization, collection and credit pre-evaluation services.

According to the SBIF, under Chilean GAAP, as of December 31, 2015, we ranked first in the Chilean banking industry in terms of net income with a market share of 25.6%. As of the same date and excluding operations of subsidiaries abroad, we continued to be the second largest bank in Chile in terms of total loans with a market share of 18.3%, we were the largest provider of commercial loans with a market share of 18.1%, we ranked second in consumer loans with a market share of 21.0% and we were also the second largest privately-owned bank in terms of residential mortgage loans with a market share of 17.6%. As for liabilities, excluding operations of subsidiaries abroad, we led the market in terms of total current account balances with a market share of 23.1% and, more importantly, we ranked first in current account balances held by individuals with a market share of 28.8%, both as reported by the SBIF and as of December 31, 2015. Lastly, according to the Chilean Association of Mutual Funds, as of December 31, 2015, we were the largest mutual funds manager with a market share of 21.3%.

As of December 31, 2015, we had:

- total assets of Ch$31,057,596 million (approximately U.S.$43,851.8 million);
- total loans of Ch$24,573,426 million (approximately U.S.$34,696.5 million), before deducting allowances for loan losses;
- total deposits of Ch$18,234,740 million (approximately U.S.$25,746.6 million), of which Ch$8,327,048 million (approximately U.S.$11,757.4 million) correspond to current account and demand deposits;
- equity (including net income, non-controlling interest and provisions for minimum dividends) of Ch$3,175,325 million (approximately U.S.$4,483.4 million);
- net income of Ch$609,905 million (approximately U.S.$861.2 million); and
- market capitalization of approximately Ch$6,938,602 million (approximately U.S.$9,797.0 million).

As of December 31, 2015, we had 14,973 employees and delivered financial products and services through a nationwide distribution network of 419 branches and 1,441 Automatic Teller Machines (ATMs). Our ATMs are part of a larger network of 7,932 ATMs operated by Redbanc S.A., a company we partly own along with 10 other privately-owned banks).

History

We were founded in 1893 as a result of the merger of Banco Nacional de Chile, Banco Agrícola and Banco de Valparaíso, which created the largest privately-owned bank in Chile. We have played an important role in the economic history of Chile. Before the creation of the Central Bank in 1926 and prior to the enactment of the General Banking Law, we were the main stabilization agent of the Chilean banking system, a role that is now performed by the Chilean Central Bank. Beginning in the early 1970s, the Chilean Government assumed control of a majority of Chilean banks, and all but one of the foreign banks that were operating at that time closed their branches and offices within the country. Throughout this era, we remained as a privately-owned bank, with the exception of a portion of our shares owned by the Chilean Government that were sold to private investors in 1975. Throughout our history we have developed a well-recognized brand name in Chile and expanded our operations in foreign markets, where we developed an extensive network of correspondent banks. In the early twentieth century, we established a representative office in London, which we maintained until 1985, when our operations in Europe were moved to Frankfurt. The office in Frankfurt was closed in 2000, when our foreign operations were centralized at the New York branch. In 1987 and 1988, we established four subsidiaries to provide a full range of specialized financial products and services as permitted by the General Banking Law. In 1999, we widened our scope of specialized financial services by creating our insurance brokerage and factoring subsidiaries. According to our estimates, we remained the largest private bank in Chile until 1996. During the early 2000s, the Chilean banking industry witnessed intense merger and acquisition activity. In 2002, we merged with Banco de A. Edwards, which allowed us to expand our business to new customer segments. In 2008, we sold our U.S. branch to Citigroup in connection with our merger with Citibank Chile that was carried out during the same year. As a result of these consolidations, we currently operate a distribution network that is composed of three brand names, namely, Banco de Chile (which operates throughout Chile), Banco Edwards-Citi (which is primarily oriented to higher income segments) and Banco CrediChile (which is focused on consumer loans and demand accounts for lower and middle income segments).

In 2012, we became the market leader in net income and the most profitable bank (the highest return on average equity and average capital and reserves) within the Chilean banking industry, according to information released by the SBIF. Similarly, among our peers we were the bank with the best credit quality indicators in terms

Table of Contents

of past-due loans (loans 90 days or more past-due), provisions for loan losses over average loans and coverage of past-due loans (loans 90 days or more past-due). Also, during 2012 we maintained our leadership in mutual funds and current accounts for individuals, while our investment banking subsidiary maintained the market leading position in corporate bond placements within the local market, according to information available at the Chilean Association of Mutual Funds, the SBIF and the *Superintendencia de Valores y Seguros* (the Superintendency of Securities and Insurance or SVS), respectively. In terms of funding diversification, we improved our access to foreign debt markets by placing senior bonds in Hong Kong and Peru for a total aggregate amount of approximately U.S.$193 million. Similarly, we established a commercial paper program in the U.S. market of U.S.$1,000 million (the Commercial Paper).

In 2013, we completed a very successful year by leading the industry in operating revenues for the first time in our recent history and net income, according to information published by the SBIF. These achievements enabled us to remain the most profitable bank in Chile in terms of return on average equity and average assets. Our leading position in net income was also a consequence of our market leading performance in expenses, which allowed us to reach the lowest efficiency ratio in the local industry, according to information published by the SBIF. Also, in order to maintain a convenient and well diversified liability structure, we have continued to seek alternative financing opportunities, especially overseas. In this regard, during 2013 we carried out four placements in Switzerland for a total amount of approximately U.S.$785 million. Also, we established a U.S.$2,000 million medium term notes program (the MTN Program) in Luxembourg. Under this program we issued medium term notes in Hong Kong and Japan for approximately U.S.$168 million and U.S.$167 million, respectively.

During 2014, the Chilean economy entered into a slowdown cycle, which affected investment and the growth of commercial loans. Amid this slowdown, we took advantage of our competitive strengths and continued to optimize our risk-return relationship by keeping our credit risk under control and developing innovative commercial strategies. As a result, we remained at the top of the industry in terms of net income generation and return on average equity, according to information published by the SBIF as of December 31, 2014. In order to achieve these goals, we improved customer experience by launching cutting-edge mobile banking solutions and applying world-class business intelligence methodologies. Furthermore, we continued to diversify our funding structure by issuing long term bonds in Switzerland, Japan and Hong Kong, while taking advantage of our U.S.$ Commercial Paper Program to raise short-term funds. Lastly, we recorded a 15.9% annual expansion in current accounts and demand deposit (year-end balances) that enabled us to rank first in these liabilities within the local banking industry, according to information released by the SBIF as of December 31, 2014. These figures were reflected by the interest of investors in Banco de Chile s stock, which recorded an 86.5% annual increase in trading volumes (excluding the effect of the LQIF secondary offering), the highest increase among all publicly listed Chilean banks.

During 2015, the economic backdrop remained a leading challenge for the banking industry. However, we remained the most profitable bank in Chile (in terms of return of return on average capital and reserves and return of average assets for banks with market share in loans above 3.0%) and the first bank in net income generation. These accomplishments were due to diverse initiatives implemented during the year, including innovation in IT solutions for our customers, which has become one of our main goals. Due to these initiatives, we were recognized as the *Best Consumer Digital Bank in Chile* by *GlobalFinance* and as the *Best Internet and Mobile Bank in Chile* by *Global Banking & Finance Review* in 2015. In addition, we entered into two strategic partnerships with both a local and an international airline, which will benefit our 1.5 million credit card holders. We also acquired a commercial loan portfolio from a local bank amounting to approximately Ch$564 billion. Moreover, 2015 was a record year for Banco de Chile in terms of bond placements amounting to roughly Ch$1,342 billion, of which Ch$156 billion were placed abroad under the U.S.$3 billion MTN Program we maintain in Luxembourg.

Merger with Banco de A. Edwards

On December 6, 2001, our shareholders approved our merger with Banco de A. Edwards, which became effective on January 1, 2002. Banco de A. Edwards had been listed on the NYSE since 1995, and since January 2002, we have been listed on the NYSE under the symbol BCH. We concluded the merger process with the consolidation of a new corporate structure and the integration of our technological platforms.

Table of Contents

Merger with Citibank Chile

On December 27, 2007, our shareholders approved our merger with Citibank Chile, which became effective on January 1, 2008. During 2008, we integrated Citibank Chile s technological platforms with ours and established a new organizational structure in order to satisfy the needs of our customers and to achieve important synergies. We concluded the merger process with the integration of Corporación Financiera Atlas S.A. (Citibank Chile s consumer division) into our consumer division (CrediChile), which allowed us to nearly double our customer base and market share in consumer finance. As result of this merger and integration process, we entered into the following agreements with Citigroup Inc. to provide a framework for our relationship with Citigroup Inc., its services and trademarks in Chile: (i) the Global Connectivity Agreement, (ii) the Cooperation Agreement, (iii) the Trademark License Agreement and (iv) the Master Services Agreement. On October 22, 2015, we entered into a new Global Connectivity Agreement, a new Cooperation Agreement and a new Trademark License Agreement with Citigroup Inc. All of these new agreements replaced the original agreements we entered into on December 27, 2008, which in turn were due to expire on January 1, 2016. In addition, on October 22, 2015, we extended the Master Services Agreement with Citigroup Inc. for a period of six months, beginning on January 1, 2016. For more information, see Item 7. Major Shareholders and Related Party Transactions Related Party Transactions.

Technological Projects

During 2013, we focused on ensuring the stability of our IT systems and implementing improvements to key processes in order to provide our customers with better service quality. Accordingly, the main IT projects undertaken in 2013 had to do with: (i) upgrading our Internet-based array of services, in order to significantly improve the availability of our Internet platforms for personal and corporate banking, (ii) setting up a security device (chip) in credit cards that should enable us to reduce the rate of fraud in this business and maintain our industry-leading position in these matters, (iii) improving the uptime of ATMs, (iv) enhancing product-related platforms for factoring, insurance, time and demand deposits, and (v) strengthening credit-assessment and granting by implementing the final stages of a new system of financial evaluation for companies and optimizing required documentation for lending.

In 2014, we devoted our efforts to developing technological solutions to provide our customers with better services while improving the performance of our primary systems and operating processes. In relation to IT innovations for customers, during 2014 we developed and released a bundle of mobile applications for smartphones called MiBanco|MiPago|MiBeneficio. These applications enable our customers to carry out diverse banking and payment transactions directly from their mobile phones. As for the performance of IT systems, throughout 2014 we improved our operating systems that support credit card transactions and electronic money transfers. We also completed the first stage of our accounting control system and replaced some of our existing credit cards with new ones that include a microchip for enhanced security. In addition, in relation to the optimization of our main operating processes, we focused on reducing the potential for manual data-entry mistakes, which represents an important source of our operational risk.

During 2015, our efforts were concentrated on providing our customers with ground-breaking mobile applications intended to improve their access to banking products and services. Similarly, we implemented initial stages of various technological projects to support commercial activities while reinforcing operational excellence and security in internet-based transactions. Thus, in 2015, we launched three new smartphone applications, namely, MiCuenta, MiPass and MiSeguro, which allow our customers to execute various banking transactions through their mobile phones, including paying monthly bills, generating secure passwords for electronic money transfers and enrolling in and managing insurance policies offered by our insurance brokerage subsidiary. Due to these applications, and those launched last year, in 2015, we were distinguished as the *Best Consumer Digital Bank in Chile* by *GlobalFinance* and the *Best Mobile Banking and Internet Banking in Chile* by *Global Banking & Finance Review*. Similarly, we implemented the first stage of a new Internet Website with diverse functionalities especially designed for the needs of companies in the wholesale banking segment. Additionally, we implemented a new internet-based service for money exchange. From an operational point of view, we took several steps to improve efficiency. Among these accomplishments, we implemented a paperless system for credit risk committees, a new platform for post-sale support for leasing operations and a pilot project for approving and clearing documentation based on images. Also, we focused on reducing the likelihood of electronic fraud and criminality against banking services by setting a new password- generating system for cash management services while replacing approximately 60% of our ATMs with newer devices and more secure infrastructure as required by the SBIF.

Table of Contents

Through these efforts we have maintained our commitment to anticipating changes and minimizing risks related to technological advances, including cybersecurity risks, as mentioned in Item 3. Key Information Risk Factors Risks Relating to our Operations and the Chilean Banking Industry and Item 3. Key Information Risk Factors Risks Relating to our Operations and the Chilean Banking Industry Cybersecurity events could negatively affect our reputation or results of operations and may result in litigation.

The 1982-1983 Economic Crisis and the Central Bank Subordinated Debt

During the 1982-1983 economic crisis, the Chilean banking system experienced significant instability that required the Central Bank and the Chilean Government to provide assistance to most Chilean private sector banks, including us. During this period, we experienced significant financial difficulties. In 1985 and 1986, we increased our capital and sold shares representing 88% of our capital to more than 30,000 new shareholders. As a result, no single shareholder held a controlling stake in the Bank. In 1987, the SBIF returned complete control and administration of the Bank to our shareholders and our Board of Directors by ending our provisional administration based on our successful capital increases as required by Law No. 18,401.

Subsequent to the crisis, like most major Chilean banks, we sold certain of our non-performing loans to the Central Bank at face value on terms that included a repurchase obligation. The repurchase obligation was later exchanged for subordinated debt of each participating bank issued in favor of the Central Bank. In 1989, pursuant to Law No. 18,818, banks were permitted to repurchase the portfolio of non-performing loans for a price equal to the economic value of such loans, provided that the banks assume a subordinated obligation equal to the difference between the face and economic value of such loans. In November 1989, we repurchased our portfolio of non-performing loans from the Central Bank and assumed the Central Bank s subordinated debt related to our non-performing loans.

The original repayment terms of our Central Bank subordinated debt, which at December 31, 1989 equaled approximately Ch$1,591,652 million (in real terms as of December 31, 2015), required that a certain percentage of our income before provisions for the subordinated debt be applied to repay this obligation. The Central Bank subordinated debt did not have a fixed maturity, and payments were made only to the extent that we earned income before provisions for the subordinated debt. In 1993 we applied 72.9% of our income before provisions to repay the Central Bank subordinated debt. In 1994 we applied 67.6%, and in 1995 we applied 65.8% of our income before provisions to repay the Central Bank subordinated debt.

In November 1996, pursuant to Law No. 19,396, our shareholders approved a reorganization by which we were converted into a holding company named SM-Chile. In turn, SM-Chile organized a new wholly-owned banking subsidiary named Banco de Chile, to which the former contributed all of its assets and liabilities, other than the Central Bank subordinated debt, to the latter. In addition, SM-Chile created SAOS, a second wholly-owned subsidiary that, pursuant to a prior agreement with the Central Bank, assumed a new repayment obligation in favor of the Central Bank that replaced the Central Bank subordinated debt in its entirety.

This Central Bank debt, for which SAOS is solely responsible and for which there is no recourse to us or SM-Chile, was equal to the unpaid principal of the Central Bank subordinated debt that it replaced but had terms that differed in some aspects, such as the rescheduling of the debt for a term of 40 years providing for equal annual installments and a pledge of our shares as collateral for such debt. The Central Bank debt bears interest at a rate of 5.0% per year and is UF-denominated.

In exchange for assuming the Central Bank debt, SAOS received from SM-Chile 63.6% of our shares as collateral. Although shares held by SAOS as collateral have economic rights that belong to the Chilean Central Bank, their voting rights are exercised by SM-Chile s shareholders. As a result of our merger with Banco de A. Edwards, the percentage of our shares held by SAOS decreased to 42.0%. Subsequently, as of December 31, 2015 the percentage of our shares held by SAOS declined to 29.75%, as a result of: (i) capital increases agreed to an Extraordinary Shareholders Meetings held in May 2007, January 2011 and October 2012, (ii) stock dividends paid in May 2006, May 2007, June 2009, April 2011, June 2012, May 2013, July 2014, and July 2015 and (iii) our merger with Citibank Chile in January 2008.

Dividends received from us are the sole source of SAOS s revenues, to be applied by legal mandate to repay its debt to the Central Bank of Chile. SAOS does not have any other material debt, as it is a special purpose

Table of Contents

legal entity created by Law No. 19,396 whose only business is to own Banco de Chile shares and repay the obligation to the Central Bank of Chile. To the extent distributed dividends are not sufficient to pay the amount due on its debt, SAOS is permitted to maintain a cumulative deficit balance with the Central Bank that SAOS commits to pay with future dividends. If the cumulative deficit balance exceeds an amount equal to 20% of our paid in capital and reserves, the Central Bank may require SAOS to sell a sufficient number of shares of our stock to pay the entire accumulated deficit amount. As of March 31, 2016, SAOS maintained a surplus with the Central Bank of Ch$603,592 million, equivalent to 23.0% of our paid in capital and reserves as of the same date. See Item 3. Key Information Risk Factors Risks Relating to our Operations and the Banking Industry One of our affiliates may be obligated to sell shares of our stock in the public market if we do not pay sufficient dividends.

As of December 31, 2015, the outstanding subordinated debt balance held by SAOS was Ch$465,445 million (including accrued interest). SAOS paid to the Central Bank a total of Ch$151,560 million in 2013, Ch$145,123 million in 2014 and Ch$142,856 million in 2015, exceeding in each of those years the required minimum annual payment.

As of December 31, 2015, the major shareholder of SM-Chile was LQ Inversiones Financieras S.A. (a subsidiary of Quiñenco S.A.), which owned, directly and indirectly, 58.24% of SM-Chile s total shares. As of the same date, our major shareholders were SAOS, LQ Inversiones Financieras S.A. and SM-Chile, each having a direct participation of 29.75%, 26.02% and 12.63% in our total common stock, respectively.

If from time to time in the future our shareholders decide to retain and capitalize all or part of our annual net income in order to finance our future growth and to distribute stock dividends, the Central Bank may require us to pay the portion of the net income corresponding to shares owned by SAOS in cash to SAOS. If we distribute stock dividends and the Central Bank does not require us to pay that portion in cash, the shares received by SAOS must be sold by SAOS within the following 12 months. The shareholders of SM-Chile will have a right of first refusal with respect to that sale.

Capital Expenditures

The following table sets forth our capital expenditures in each of the three years ended December 31, 2013, 2014 and 2015:

	For the Year Ended December 31,					
		2013		2014		2015
			(in millions of Ch$)			
BANK S INTERNAL REPORTING POLICIES:						
Computer equipment	Ch$	7,509	Ch$	22,776	Ch$	18,746
Furniture, machinery and installations		1,339		2,264		4,257
Real estate		3,026		6,028		7,909
Vehicles		375		445		564
Subtotal		12,249		31,513		31,476
Software		5,511		5,382		8,519
Total	**Ch$**	**17,760**	**Ch$**	**36,895**	**Ch$**	**39,995**

Our budget for capital expenditures for 2016 amounts to approximately Ch$68,334 million, of which expenditures in information technology investments represent 62.7%, while infrastructure projects represent the remaining 37.3%. The budget for capital expenditures is in line with our mid-term strategic priorities of improving our efficiency and reinforcing our proximity to customers, particularly in our retail banking segment by expanding both physical and remote contact channels. These capital expenditures will be principally financed by cash on hand and long-term debt financing.

Among the budgeted expenditures for information technology, 63.6% corresponds to new and ongoing IT projects intended to provide us with business solutions as well as productivity improvements, 8.1% is related to critical projects identified in a mid-term IT plan in its final stages and the remaining 28.3% consists of investments in technological equipment and improvements or renewal of our ATMs nationwide network, in response to the Chilean regulator s new security requirements for the ATMs operation.

Table of Contents

Our 2016 budget for infrastructure expenditures includes disbursements associated with renovation and restoration of our main building, implementation and relocation of commercial branches and general maintenance investments.

All of the aforementioned investments have been or will be made in Chile.

Table of Contents

BUSINESS OVERVIEW

Our Competitive Strengths

Building on our knowledge of the Chilean financial market, we have historically been able to develop significant competitive advantages based on our strong brand recognition, our widespread branch network, the diversity and relative size of our customer base, our highly competitive funding structure, the superior asset quality of our loan portfolio as compared to our peers in Chile, an attractive risk-return relationship and our market leadership in a diverse range of financial products and services.

Our main competitive strengths are:

Brand Recognition and Strong Corporate Image

We have operated in the Chilean financial industry for over 120 years under the Banco de Chile brand name. In order to provide our customers with specialized value offerings and a wider range of financial products and services, we have also developed the Banco Edwards|Citi , Banco CrediChile and Banchile brand names. We believe our long standing history in the Chilean market is recognized by our customers and the general public, who associate us with quality, reliability and social responsibility within the Chilean financial industry, as demonstrated in various polls conducted by well-known market research companies. According to market research conducted by Adimark GFK (part of the GFK Group), during 2015 we remained the most recognized brand among financial institutions operating in Chile. We believe that our long history in the Chilean banking industry is a key element that differentiates us from our competitors.

Additionally, we believe that our merger with Citibank Chile reinforced our corporate image as a leading financial institution within Chile and allowed us to gain recognition among customers and investors all over the world.

We also believe that our strong corporate image is further strengthened by our commitment to social responsibility, which includes supporting the Teleton Foundation (a non-governmental organization dedicated to assisting and treating disabled Chilean children), our partnership with institutions dedicated to improving the quality of Chilean education, our participation in campaigns intended to improve the quality of life of needy people, our commitment to the development of sports in Chile and other initiatives intended to strengthen our role in, and contribution to Chilean society.

Business Scale and Leading Market Position

We are one of the largest financial institutions in Chile and a market leader in a broad range of financial products and services within the Chilean financial system, as listed in the following table:

	As of December 31, 2015	
	Market Share	Market Position
Commercial Loans(1)	18.1%	1st
Year-End Balances of Total Demand Deposits and Current Account(1)	23.1%	1st
Current Accounts Balances held by Individuals	28.8%	1st
Mutual Funds (Assets Under Management)	21.3%	1st
Net Fees and Commissions Income	20.3%	1st
Net Income for the Period	25.6%	1st

Source: SBIF and Chilean Association of Mutual Funds.

(1) Excluding operations of subsidiaries abroad.

We have traditionally had a strong presence in the wholesale segment by maintaining long-term relationships with major local and multinational companies that operate in Chile. We have been able to maintain this leading position by continuously improving our products and services and supplementing them with comprehensive and tailored service models that allow us to successfully serve our customers needs. We have also

Table of Contents

added value to our service offerings by including treasury products for hedging purposes, together with investment banking, insurance brokerage and other specialized financial services provided by our subsidiaries.

In addition, in recent years we have been focused on further penetrating the retail banking business through diverse value offerings intended to cover all of the population and enterprises we target. Therefore, in recent years we have prioritized expanding our residential mortgage portfolio and our presence in transactional services such as credit cards, current accounts and demand accounts, as we believe they are effective means to build long-term relationships and customer loyalty, while increasing cross-selling opportunities. As a result, through our Individual and SME Banking Unit (which belongs to our Commercial Division), we lead the market in services offered to high income individuals for whom we have developed an attractive and complete portfolio of financial services, including a full range of wealth management services through one of our subsidiaries. Also, our Consumer Finance Division (Banco CrediChile) has become one of the largest providers of consumer loans among the Chilean banks consumer divisions, based on comprehensive service offerings for low income individuals. This has been recently supplemented by the implementation of value offerings satisfying small scale entrepreneurs financial needs and individual customers in outlying districts seeking deposit and transactional solutions. This broad variety of services has also enabled us to lead the Chilean market in terms of income from fees and commissions.

We believe our financial strength, prestige and brand recognition among Chilean customers have allowed us to become the market leader in terms of current account balances within the Chilean financial system, especially among individuals, who have demonstrated their preference for our services. Our position was further consolidated in the financial downturn that started in 2008, when we benefited from a flight-to-quality effect as investors were seeking a reliable institution to keep their funds.

Broad Customer Base and Nationwide Distribution Network

We believe that we have one of the largest customer bases among financial institutions in Chile. In recent years, we have been able to expand our customer base by providing attractive and tailored value offerings based on continuously improving segmentation and by applying sophisticated business intelligence tools. As of December 31, 2015, we had approximately 2,200,000 customers, including approximately 1,170,000 borrowers, roughly 760,000 current accounts holders, nearly 131,000 time deposit holders, approximately 368,000 saving account holders and approximately 1,540,000 credit card holders. Our customer base is composed of the sum of individuals and companies holding and using at least one or a combination of the following products: a loan, a current account, a credit card or a demand account.

We believe that our broad customer base is both an essential driver of our business and a valuable asset that enables us to cross-sell our products and services.

In order to better serve our customers, we are present in all regions of Chile and strive to be accessible to every Chilean customer through our large branch network as well as non-physical contact channels. As of December 31, 2015, we had a nationwide branch network of 419 branches, the second largest in Chile among privately-owned banks, according to information published by the SBIF. This network is composed of 254 branches under our Banco de Chile brand name, 39 branches under our Banco Edwards|Citi brand name and 126 branches under our Banco CrediChile brand name. We believe that our branch network enables us to develop close relationships with our customers and therefore we are constantly assessing new branch locations throughout Chile.

In addition, to improve our customer service, we are constantly reviewing the appearance and layout of our branches. We aim to turn each of our branches into a business generating unit. As a result, we have revised and re-designed our service models in most of our credit-lending units in order to maximize branch profitability and enable our on-site account executives to focus on serving customers and developing new businesses rather than focusing on administrative tasks, which have been mostly transferred to centralized back-office staff.

We have also enhanced our branch network with non-physical remote channels, such as ATMs, Internet-based online platforms and mobile banking applications. As of December 31, 2015, we had 1,441 ATMs throughout Chile and launched diverse mobile banking applications including MiBanco, MiBeneficio, MiCuenta, MiPago, MiPass and MiSeguro.

Table of Contents

Diversified Value Offering of Financial Products and Services

In response to the diverse needs of our customers, we have become a full-service financial company that operates under a multi-brand approach, offering a wide range of traditional banking products and services to our customers that are supplemented by specialized financial services provided by our subsidiaries, including:

- securities brokerage,
- mutual funds management,
- securitization,
- financial advisory,
- insurance brokerage,
- collection services,
- credit pre-evaluation services, and
- trade services.

In addition, our strategic alliance, backed by a Global Connectivity Agreement with Citigroup Inc., has allowed us to broaden our service offerings by adding a comprehensive portfolio of international financial services that previously we could only partially provide.

All of the above is supplemented by tailored service models based on the needs of consumers across all of our markets.

Competitive Funding Structure

We believe that we have a cost effective and highly competitive funding structure based on our leading market position in current accounts and demand deposits, especially among individuals. According to the SBIF, as of December 31, 2015, we ranked first within the Chilean banking industry in current account and demand deposits held by individuals by attaining a 28.8% market share. Similarly, as of that same date and excluding operations of subsidiaries abroad, we were the principal bank in Chile in terms of total balances of our non-interest bearing current accounts and demand deposits representing 23.1% of the industry, as reported by the SBIF. Also, our total balances of current accounts and demand deposits represented 26.6% of our funding structure as of December 31, 2015, as compared to the 19.6% reported by the Chilean financial industry as a whole, excluding Banco de Chile.

Our funding structure provides us with a cost advantage over many of our competitors (which use a higher proportion of interest bearing liabilities), as current accounts and demand deposits are non-interest bearing in Chile. Our solid market position in demand deposits, together with our high international credit ratings, translated into one of the lowest costs of funding from liabilities associated with interest bearing deposits and long-term debt, among the seven largest banks in Chile.

We are constantly striving to diversify our liability structure in order to maintain a competitive cost of funding and improve our liquidity. During 2015 we completed long-term debt placements in Chile and abroad of approximately Ch$1,342,224 million, of which approximately Ch$155,844 million were issued abroad. Unlike previous years, during 2015 we were less active in placing bonds abroad due to less attractive financial conditions, particularly associated with structuring hedging position. Accordingly, local and international long-term debt have increased their joint share in our funding structure. In fact, our issued long-term debt represented roughly 9.7% of our total assets in 2010 as compared to 19.5% as of December 31, 2015. This increase has allowed us to replace deposits coming from institutional and wholesale customers, which are, in general, a less stable source of funding. Thus, our funding diversification strategy has contributed to lengthen the maturity of our liabilities and, therefore, to improve our liquidity.

Table of Contents

Superior Asset Quality

We are one of the Chilean financial institutions with the highest credit quality and the healthiest loan portfolio in Chile. We believe this asset quality is the result of our well known prudent risk management approach and accurate credit risk models that are continuously being updated and have enabled us to maintain relatively low levels of past-due loans (loans 90 days or more past-due) and high coverage indicators over the last few years. According to the SBIF, as of December 31, 2015, we had a delinquency ratio (loans 90 days or more past-due as a percentage of total loans) of 1.22%, which was well below the industry average delinquency ratio of 2.08% reported by the Chilean banking industry (excluding Banco de Chile) as of the same date. Additionally, as of December 31, 2015 we had a coverage ratio (allowances for loan losses over loans 90 days or more past-due) of 200.8%, which was well above the industry average coverage ratio of 127.6% as of the same date (excluding Banco de Chile).

Our Business Strategy

Purpose

We are a company that contributes to the economic development of the country by generating favorable conditions for the development of individuals and enterprises, providing them with financial solutions that fit their needs.

Mission

We are a leading and globally-connected corporation with a prestigious business tradition. We provide excellent financial services to each type of customer by offering creative, fast and effective solutions for each segment, and ensuring that we add value for our customers, shareholders, employees and community as a whole.

To accomplish this mission, we believe it is essential to attain industry leadership in all businesses and financial areas in which we operate, namely, profitability, efficiency, business scale, customer base, human resources development and corporate social responsibility.

This mission also requires initiatives to achieve comprehensive excellence in management, with customer satisfaction as our major goal. We use high industry standards in information technology, business models and quality, all of which is summarized by the value creation cycle below:

Table of Contents

Vision

We aspire to be, in all things we do, the best bank for our customers, the best place to work and the best investment for our shareholders. In order to accomplish this vision, we are committed to the development of our employees and the community as a whole.

Throughout our history, we have aspired to be a leading bank in the Chilean financial system. This vision involves and commits us to all of the diverse stakeholders related to our business, namely, customers, employees, investors and the community. Our vision is shared and internalized by all areas across the corporation, senior management and the board of directors and constitutes the basis for our strategic objectives.

Commitments

We aim to satisfy the expectations of diverse stakeholders by:

- **Our Customers**
- Offering innovative and top-quality banking products and financial services.
- Providing customers with excellent service based on customized relationships and a proactive attitude.
- Ensuring the availability and stability of physical and non-physical service channels.
- Maintaining trusted relationships in order to be our customers main bank.
- **Our Employees**
- Providing employees with career opportunities based on merit.

- Promoting a respectful and friendly work environment.
- Offering competitive compensation and economic benefits.
- Supplying adequate technological tools and infrastructure.
- **Our Community**
- Improving quality of life and managing adversity.
- Strengthening the quality of education in Chile.
- Promoting entrepreneurship.
- Protecting the environment.
- Building strong relationships with suppliers.
- **Our Shareholders**
- Leading the industry in net income generation and profitability.
- Maintaining a strong market position in terms of business volume.
- Fostering operating efficiency and productivity.
- Developing a prudent approach to risk management.

Table of Contents

Strategic Priorities

Our long-term strategy is intended to maintain profitable growth by enhancing our market-leading position within the Chilean financial industry through a broad range of financial products and services to corporations and individuals nationwide. As part of this strategy, we have developed a multi-brand approach to target different market segments. We aim to leverage our strongly positioned brand names Banco de Chile , Banco Edwards|Citi and Banco CrediChile in traditional banking, which are supplemented by specialized financial services (such as securities brokerage, mutual funds management, securitization, financial advisory and insurance brokerage) provided by our subsidiaries that operate under the Banchile brand name.

Since the performance of our business depends on many factors, we cannot assure you that we will be able to implement our strategies successfully or that we will be able to reach our strategic goals. For a discussion of certain risks applicable to our operations, industry and country we operate in, see Item 3. Key Information Risk Factors .

Our business model is focused on those lines of business that add significant economic value to our shareholders, have appropriate levels of risk and allow us to strengthen long-term relationships with our customers. We seek sustained growth, particularly in higher-margin segments and business areas that show strong growth potential. Accordingly, in recent years we have reoriented our business focus towards the retail, large companies and treasury segments, in which we aim to achieve the same prominent position that we have obtained in the corporate segment. Thus, we strive to:

- **Lead the Retail Banking Business**

In our retail banking segment, our aim is to lead the market by providing differentiated and comprehensive value offerings based on a deep and continuously improving segmentation that permits us to engage in profitable and high-growth potential business opportunities. Thus, we expect to expand our business and customer base by developing tailored service models, optimizing our branch network, enhancing our presence in the small and medium companies market and reinforcing certain lending products that should enable us to consolidate long-term relationships with our upper and middle-income individual customers, especially through payment channels usage (such as credit cards), installment loans and residential mortgage loans. Similarly, we aspire to target lower-income individuals and microbusinesses by promoting payroll-deduction lending and attracting customers previously unattached to any bank through a basic array of services, as well as providing commercial credit.

Following the trend of the past several years, in 2015, we continued to prioritize growth in middle and upper income segments in personal banking, based on our view of the local economy and the potential effects of the economic slowdown on the lower income segment s payment capacity. In addition, we promoted loan growth in less risky assets, such as mortgage loans, by taking advantage of specific trends seen in the real estate market. Also, we continued to apply business intelligence tools while improving segmentation of our customer base. This allowed us to develop tailored value offerings while avoiding competition among our in-person and online distribution channels, as a result of an accurate cost-based pricing. We have also focused on transactional services, especially credit cards, by improving benefits to our 1.5 million credit card holders. In this regard, during 2015, we entered into two strategic partnerships with a local and an international airline. This strategy is intended to reinforce our loyalty programs by allowing customers to redeem their credit card points to purchase flight tickets or miles at special discounts. All of these initiatives have been supplemented by the development of cutting-edge mobile banking applications. In 2015, we launched three new smartphones applications (MiCuenta, MiPass and MiSeguro), which complemented those released in 2014 (MiBanco, MiPago, MiBeneficio). These applications seek to improve access our customer s access to various financial services, including monthly bill payments, online password generation for electronic money transfers and insurance premiums purchase and management.

In addition, we have continued to strengthen value offerings for CrediChile customers (lower-income segment customers with monthly income between Ch$170,000 and Ch$500,000). Thus, CrediChile added more benefits to CuentaChile by creating ClubChile to increase transactions by improving customer loyalty. Benefits for ClubChile members include discounts at a variety of stores and non-financial services. Also, CuentaChile users can use the CajaChile network, which provides CuentaChile customers with a suite of basic financial services through a transactional platform located in local convenience stores in socially or geographically isolated communities. As of December 31, 2015, we had 2,138 CajaChile locations covering approximately 74% of the country s communities.

Table of Contents

These initiatives are intended to take advantage of the retail banking segment s growth potential. Even though Chile s per capita GDP has increased fourfold over the last 26 years, banking penetration in the Chilean economy is still below that in developed countries, particularly within the low and middle income population segments and with respect to certain banking products such as residential mortgage and consumer loans. In fact, as of December 31, 2015, the loan book of the Chilean banking industry (excluding operations of subsidiaries abroad) represented 85.2% of the Chilean GDP. As of the same date, mortgage and consumer loans represented 23.0% and 11.5%, respectively.

Accordingly, all of the above contributed to an increase in loan balances managed by our retail banking segment of approximately 15.4% in 2015 as compared to 2014. This increase was due to an 18.2% annual growth in mortgage loans, a 14.4% increase in commercial loans and a 11.6% increase in consumer loans. For consumer, it is worth mentioning the annual increase of 15.1% in loans related to credit cards and an increase of 10.5% in installment loans.

We believe we can grow further in this segment since, according to the SBIF, as of December 31, 2015, we had a 17.6% market share in residential mortgage loans and a 21.0% market share in consumer loans, both below the market stake held by the market leader. As for consumer loans, due to our effective strategies focusing on middle and upper income segments, the gap between us and the market leader decreased from 3.6% as of December 31, 2014 to 2.3% as of December 31, 2015 . With respect to residential mortgage loans, however, the gap between us and the market leader moderately increased from 3.8% as of December 31, 2014 to 3.9% as of December 31, 2015. This increase is aligned with our prudent approach to risk-taking. Given the boost observed in the housing market over the last five years, during 2015 we tightened the entire credit process, from admission to collection, and imposed stricter conditions to granting mortgage loans in order to maintain a balanced risk return relationship.

Despite our efforts to increase market penetration of retail banking, especially in lending products, we believe that the fierce competition in the banking industry compels us to innovate in terms of new products and services to diversify our revenue sources. Accordingly, we have strived to build comprehensive value offerings for our retail segment, prioritizing fee based income. As a result, our consolidated income from fees and other services has become an important source of revenue for us, reaching Ch$272,188 million (or 16.4% of our total operating revenues) in 2014 and Ch$305,979 million (or 18.4% of our total operating revenues) for the year ended December 31, 2015. We aim to generate increasing revenues from fees and commissions by developing innovative products and services and reinforcing cross-selling.

- **Lead the Wholesale Banking Business**

In our wholesale banking segment (which targets companies with annual sales over Ch$1,600 million), we aim to maintain our leading market position in terms of loans while achieving higher profitability in a market that is characterized by low margins and fierce competition. We intend to accomplish these goals by increasing our cross-selling of non-lending products and services through various initiatives. We are focused on improving our offering of cash management services, enhancing our internet-based services, increasing the penetration of products designed by our treasury and money market operations segment, enhancing our presence in certain lending products such as leasing and factoring and promoting international businesses by taking advantage of the commercial synergies related to both our merger with Citibank Chile (such as the Global Connectivity Agreement with Citigroup) and the specialized financial services offered by our subsidiaries, such as securities brokerage, mutual funds management and financial advisory in order to meet the needs of certain niches within this business segment.

As a result, according to our management information system, we increased our cross-selling indicator of non-lending revenues to lending revenues from 1.31 times as of December 31, 2009 to 1.80 times as of December 31, 2015. We expect to continue enhancing our cross-sell indicators in order to optimize the profitability of the wholesale banking segment. This achievement took place together with a loan growth of 8.7% in year-end balances of total loans managed by our wholesale banking segment. This expansion was mainly explained by loans granted by our Large Companies and Real Estate Unit (annual turnover between Ch$1,600 and Ch$70,000 million) with loan balances increasing by 10.6% and, to a lesser extent, by an annual increase of 5.9% in loan balances managed by our Corporate Division (annual sales above Ch$70,000 million). This trend in loans has been the result of plans intended to enhance the closeness with the customers through a dual model of service that includes several on-site visits by a team composed of account officers and credit risk analysts.

Table of Contents

Also, part of the expansion in lending products during 2015 was associated with the acquisition of a portfolio of commercial loans from a local bank amounting to approximately Ch$564,000 million. This was a strategic business opportunity to broaden our business relationship with certain customers who were also our customers, but also to gain new customers and improve our cross-selling platform.

We also promote diverse services such as leasing, factoring and cash management in this segment. Based on this view, we remained one of the leaders in these markets in 2015 by ranking second in both factoring and leasing related loans with market shares of 21.5% and 19.6%, respectively (including operations of subsidiaries abroad). Regarding cash management services, during 2015 we increased joint volumes related to collection and payment agreements by approximately 6.5%.

In our treasury and money market operations segment, we intend to take advantage of our specialized knowledge in order to increase the penetration of widely-used products in our current customer base while offering innovative products to potential clients. Also, we continuously seek newer and more convenient funding choices, locally and internationally, in order to support our long term business strategy by promoting an adequate diversification of our funding structure.

- **Improve Service Quality**

We are convinced that in a highly competitive industry such as the Chilean banking system, a customer-centric focus is critical to generating loyalty and creating long-term, profitable relationships. We believe that our high service quality is a competitive strength that differentiates us from competitors and supports our long term strategy by responding to the preferences of our current and potential customers. Accordingly, we strive to continuously improve our relationships with customers by developing commercial strategies aligned with their needs, as well as improving our response time and customer satisfaction indicators.

Consistent with this view, during 2015 we continued to improve customer experience by enhancing our commitment to service quality. In this regard, we strived to reinforce this concept across the corporation by embracing new service quality standards and communicating them not only to commercial units but also to back- and middle-office areas. Thus, we made efforts to target those branches with service quality standards below the Bank s average (outliers). For these branches we designed special plans to enhance procedures and improve the treatment of specific situations. In general, we achieved an overall improvement in service quality measures in all of the targeted branches. Furthermore, we invested further resources in IT systems to support quality management. For example, we implemented a call-center system that meets our SMEs customers requirements and ensures our SMEs customers have access to prompt and adequate assistance. Similarly, we have automated the process for completion of certain commercial documentation to improve account officers productivity by allowing them to focus on commercial tasks. On the other hand, we also concentrated on training our staff in specific methodologies and procedures for solving customer complaints.

Overall, based on customer satisfaction surveys, we believe that our current service quality standards meet our customers expectations. To maintain our customers satisfaction, we remain focused on continually improving our service quality standards to properly respond to increasing customers expectations and changes in competitors strategies. For this reason, in 2015, we devoted efforts to developing customer journeys by enhancing processes in diverse products and contact channels to provide our customers with the best quality standards in all of their transactions with the Bank.

Promote Operating Efficiency

We believe that operating efficiency is a key competitive advantage that we have to maintain in order to grow profitably. Accordingly, our strategy for efficiency intends to achieve the highest productivity and the tightest cost control. We believe these elements will be increasingly important in our efforts to maintain high profitability ratios in a changing business environment that is under increasing regulatory focus. To accomplish these goals, we have invested in information technology and the development of simpler, more manageable, secure and modern business processes and platforms to attain faster response times and higher productivity. We also continue to enhance our strategic development capabilities, increase our business scale, develop economies of scope by incorporating new financially related businesses, reinforce the productivity of our branch network, enhance our remote transactional channels, improve our credit processes, develop a higher level of automation in our internal processes and consolidate our cost control policy and monitoring procedures.

In 2013, 2014 and 2015, we invested a total of approximately Ch$68,500 million (composed of approximately Ch$13,000 million, Ch$28,200 million and Ch$27,300 million in 2013, 2014 and 2015, respectively) in information technology, mainly software and hardware, as we believe this is one of the best ways to improve our service quality and operating efficiency while properly fitting customers needs, which are increasingly linked to IT services. Similarly, we are continuously developing and optimizing internal processes in order to reduce and manage our expenses.

In this regard, during 2015, we continued to focus on operating efficiency through diverse projects intended to improve the quality and responsiveness of internal operating processes. Moreover, we invested additional resources in optimizing certain procedures that take advantage of imaging technology and improve electronic security for online transactions. For example, we have automated the process for completion of certain commercial documentation to improve account officers productivity by allowing them to focus on commercial tasks. In addition, we began the initial stage of an electronic system for documentation approval. We also improved security in electronic transactional services by setting a new password-generating device for electronic money transfers and cash management services used by companies. This should enable us to reduce operational risks and electronic frauds. Lastly, as requested by the Chilean government, we have continued to renew our ATMs network by replacing older devices with new ATMs with more sophisticated technology. Similarly, we have reinforced the infrastructure and security standards for ATMs located within our branches and more importantly for those placed in convenience stores and public places.

As a result of these initiatives, our efficiency ratio, measured as consolidated operating expenses over consolidated operating revenues, has maintained suitable levels over the last three years. During 2013, 2014 and 2015, our efficiency ratio was 41.9%, 43.8% and 43.7%, respectively. Based on information published by the SBIF, under Chilean GAAP, as of December 31, 2015 we ranked second in terms of efficiency within the local banking industry.

- **Enhance Corporate Reputation**

We believe that improving our social reputation is crucial to meet our strategic goals in the midst of societal changes in Chile and worldwide, so we aim to create improved mechanisms in order to build positive connections with our communities. Therefore, we have undertaken a wide range of initiatives intended to encourage active participation in different areas of society. This view is shared by the Bank and its employees, who support the development of Chile through diverse methods such as promoting social progress, contributing to environmental protection, decreasing extreme poverty, providing high-quality education to needy people, assisting disabled young people, fostering cultural development and embracing campaigns intended to overcome the effects of specific adverse events such as natural disasters.

In line with this view, during 2015, we continued to support diverse social endeavors by collaborating with Desafío Levantemos Chile, which is an initiative intended to promote entrepreneurship throughout Chile and especially within lower income segments. Based on this partnership, we assisted people affected by earthquakes and floods that occurred in northern Chile during 2015 by donating both monetary and non-monetary resources to help re-establish many entrepreneurs working capacity. In addition, we maintained our commitment to disabled people by supporting Teleton Foundation throughout the year by assisting disabled children and supporting disabled athletes and artists.

However, our most significant contribution to Teleton in 2015 was our involvement, as every year since its foundation, in Teleton s annual fund-raising campaign. For instance, we assisted Teleton s fund-raising campaign by offering our physical infrastructure, our technological resources and making an important monetary donation. Similarly, we continued to make charitable contributions to improve the quality of education across lower income segments through Astoreca Foundation. Finally, we are also committed to the financial education of the Chilean population, especially the lower income segment in order to promote saving and avoid over-borrowing. Accordingly, in 2015, we carried out various on-site workshops and e-learning programs to train approximately 28,000 individuals and entrepreneurs.

Table of Contents

- **Alignment of Human Resources and Culture**

We believe human resources are a key element of our long-term goals. In order to consolidate profitable growth, achieve high standards of service quality, attain operating efficiency and build an excellent corporate reputation over the long run, we must have a motivated and highly qualified workforce committed to our corporate values, including ethical conduct, responsibility, integrity, prudence, justice, loyalty and respect.

Accordingly, we strive to develop a distinctive culture among our employees by promoting: (i) a clear focus on the customer, (ii) confidence and responsibility, (iii) leadership and empowerment, (iv) collaboration and teamwork and (v) innovation and continuous improvement.

We also seek to remain one of the most respected employers in Chile. For this reason, we have recently undertaken diverse projects and initiatives intended to emphasize our commitment to recruiting and retaining excellent employees, including a platform that manages the internal mobility of our employees. Also, we have improved our competence evaluation methodology to identify remarkable employees and enhance their career development. As for training activities, we have continued to focus on generating leadership capabilities through diverse programs. We believe these initiatives are aligned with our strategy and the professional development that our team aspires to achieve. Lastly, we have reinforced our commitment to the wellness of our employees. For this reason, during 2015, we launched new assistance programs intended to provide our team with psychological, health and legal support. We also promoted biking among our staff located in the city center by providing bicycle parking racks.

Also, during 2015, we continued strengthening the connection with our employees in order to align corporate values and goals with their career development and personal goals. Given the various merger processes that have taken place in Banco de Chile, our aim is to build a consistent culture, based on a commitment to our corporate values, attributes and beliefs, while making it a distinctive culture from other competitors to provide our customers with differentiated service. Accordingly, during 2015, we executed various initiatives to promote staff s involvement with our corporate values including the program La Selección del Chile (Chile s Team), by which we rewarded more than 2,000 employees who we believed excelled in implementing and demonstrating our corporate beliefs.

Ownership Structure(1)

The following diagram shows our ownership structure as of April 15, 2016:

(1) The ownership structure diagram reflects share ownership and not voting rights. See Item 7. Major Shareholders and Related Party Transactions Major Shareholders.

Table of Contents

Principal Business Activities

We are a full-service financial institution that provides, directly and indirectly through our subsidiaries and affiliates, a wide variety of lending and non-lending products and services to all segments of the Chilean financial market. Accordingly, for management purposes we organize our operations in the following four business segments:

The information related to our business segments presented in this section has been prepared in accordance with our internal reporting policies. See Item 5. Operating and Financial Review and Prospects Operating Results Results of Operations for the Years Ended December 31, 2013, 2014 and 2015 Business Segments and Item 5. Operating and Financial Review and Prospects Operating Results Results of Operations for the Years Ended December 31, 2013, 2014 and 2015 Summary of Differences between Internal Reporting Policies and IFRS for a description of the most significant differences between our internal reporting policies and IFRS.

The following table sets forth information on the composition of our loan portfolio and our consolidated income before income tax in accordance with our internal reporting policies for the year ended December 31, 2015, allocated among our principal business segments:

	For the Year Ended December 31, 2015
	Total Loans

:			Income before Income Tax(1)
	(in millions of Ch$, except percentages)		
BANK S INTERNAL REPORTING POLICIES			
Retail market	13,538,867	55.1%	302,480
Wholesale market	11,008,163	44.8%	247,701
Treasury and money market operations			31,131
Operations through subsidiaries	11,011	0.1%	39,415
Other (adjustments and eliminations)			
Total	**24,558,041**	**100.0%**	**620,727**

(1) This net income breakdown is used for internal reporting and planning purposes and it is based on, among other things, our estimated funding cost and direct and indirect cost allocations. This breakdown may differ in some extents from breakdowns of our operating income for financial reporting and regulatory purposes. Separate information on the operations, assets and income of our financial services subsidiaries and affiliates is provided below under Operations through Subsidiaries.

Table of Contents

The following table sets forth our consolidated operating revenues in accordance with our internal reporting policies, allocated among our principal business segments, for the years indicated:

	For the Year Ended December 31, 2013		2014 (in millions of Ch$)		2015	
BANK S INTERNAL REPORTING POLICIES:						
Retail market	Ch$	923,222	Ch$	1,002,134	Ch$	1,015,490
Wholesale market		403,063		480,050		464,497
Treasury and money market operations		16,307		47,051		36,134
Operations through subsidiaries		126,576		134,964		147,339
Other (adjustments and eliminations)		(13,143)		(17,797)		(17,105)
Total Operating Revenues	**Ch$**	**1,456,025**	**Ch$**	**1,646,402**	**Ch$**	**1,646,355**

The following table sets forth a geographic market breakdown of our operating revenues in accordance with our internal reporting policies, for the years indicated:

	For the Year Ended December 31, 2013		2014 (in millions of Ch$)		2015	
BANK S INTERNAL REPORTING POLICIES:						
Chile	Ch$	1,469,110	Ch$	1,664,185	Ch$	1,663,460
Banking operations		1,342,592		1,529,235		1,516,121
Operations through subsidiaries		126,518		134,950		147,339
Foreign operations		58		14		
Operations through subsidiaries		58		14		
Other (adjustments and eliminations)		(13,143)		(17,797)		(17,105)
Total Operating Revenues	**Ch$**	**1,456,025**	**Ch$**	**1,646,402**	**Ch$**	**1,646,355**

Retail Banking Segment

Our retail banking segment serves the financial needs of individuals and small and medium sized companies through our branch network. As of December 30, 2015, our retail banking segment managed 293 branches operating under our Banco de Chile and Banco Edwards|Citi brand names and 126 branches within the Banco CrediChile network. As of December 31, 2015, loans granted by our retail banking segment amounted to Ch$13,538,867 million and represented 55.1% of our total loans as of the same date.

In terms of composition, as set forth in the following table, as of December 31, 2015 our retail segment s loan portfolio was principally focused on residential mortgage loans, which represented 47.2% of the segment s loan book. The remaining loans were distributed between consumer (27.6%) and commercial loans (25.2%).

As of December 31, 2015

		(in millions of Ch$, except percentages)	
BANK S INTERNAL REPORTING POLICIES:			
Commercial loans	Ch$	3,413,070	25.2%
Residential mortgage loans		6,395,850	47.2
Consumer loans		3,729,947	27.6
Total	**Ch$**	**13,538,867**	**100.0%**

We serve the retail market through two different and specialized divisions: (i) the Commercial Division (particularly through the Individual and SME Banking Unit) and (ii) the Consumer Finance Division (or Banco CrediChile).

Individual and SME Banking Unit - Commercial Division

The Individual and SME Banking Unit is responsible for offering financial services to individuals with monthly incomes over Ch$500,000 (or Ch$ 6.0 million per year) and to small and medium sized companies with annual sales of up to approximately Ch$1,600 million. This division manages the portion of our branch

Table of Contents

network operating under the brand names Banco de Chile and Banco Edwards Citi and had 293 branches as of December 31, 2015.

The strategy followed by the Individual and SME Banking Unit is mainly focused on sub segmentation, multi brand positioning, cross sell of lending and non-lending products and service quality based on customized service models for specific customer needs. Also, loyalty programs have been increasingly incorporated into our commercial targets for each sub segment and they have enabled us to increase the use of our credit cards and our fee-based income. In addition, the division s operations count on the support of specialized call centers, mobile and Internet banking services, along with a wide range of management tools that allow us to measure returns, the performance of cross sold products and the effectiveness of marketing campaigns.

During 2015, the Individual and SME Banking Unit continued to develop new commercial campaigns by using business intelligence tools to improve focus on profitability across distribution channels. Accordingly, pricing has been redefined to adequately reflect the marginal cost of serving customers. This initiative led us to record historical levels of Internet loan sales of approximately Ch$367,000 million, which represented an annual expansion of 36%. Also, in line with our aim of promoting long-term relationships with customers while benefiting from a competitive funding, we posted record sales in mortgage loans amounting to approximately Ch$1,788,000, representing a 54% annual expansion. In addition, mobile banking remained one of our leading goals. For example, in 2015, our Individual and SME Banking Unit launched three new mobile applications named MiCuenta, MiPass and MiSeguro. These applications, along with MiBanco|MiPago|MiBeneficio, a mobile solution launched in 2014, allow our customers to execute various banking transactions through their mobile phones, including paying monthly bills, generating secure passwords for electronic money transfers and enrolling in and managing insurance policies offered by our insurance brokerage subsidiary.

As of December 31, 2015, the Individual and SME Banking Unit served 939,535 individual customers (hereafter customer should be understood as the sum of individuals and companies holding and using at least one or a combination of the following products: a loan, a current account, a credit card or a demand account) and 108,347 small and medium sized Chilean companies. This customer base resulted jointly in total loans granted to 765,083 borrowers, which included 112,490 residential mortgage loans debtors, 95,800 commercial loan debtors, 388,664 utilized lines of credit and 357,792 installment loans. As of the same date, the Individuals and SME Banking Unit held 755,353 current accounts, 142,273 savings accounts and 239,802 time deposits.

As of December 31, 2015, loans granted by the Individual and SME Banking Unit amounted to Ch$12,735,388 million, which represented 51.9% and 94.1% of our total loans and loans granted by our retail market segment, respectively, as a whole. The following table sets forth a breakdown of the unit s loan portfolio by lending product in accordance with our internal reporting policies, as of December 31, 2015:

	As of December 31, 2015 (in millions of Ch$, except percentages)
BANK S INTERNAL REPORTING POLICIES:	

Commercial loans			
Commercial credits	Ch$	2,752,823	21.6%
Leasing contracts		370,284	2.9
Other loans		258,432	2.0
Total Commercial Loans		**3,381,539**	**26.5**
Residential Mortgage Loans		**6,317,336**	**49.6**
Consumer Loans			
Installment loans		1,805,307	14.2
Credit cards		934,760	7.4
Lines of credit and other loans		296,446	2.3
Total Consumer Loans		**3,036,513**	**23.9%**
Total	**Ch$**	**12,735,388**	**100.0%**

We offer a variety of financial services to individuals and small and medium-sized companies, directly through the Individuals and SME Banking Unit or indirectly through our subsidiaries, such as current accounts,

Table of Contents

automatic bill payment, debit cards, credit cards, revolving credit lines, residential mortgage loans, consumer loans, commercial loans, mortgage loans for general purposes, leasing agreements, factoring services, mutual funds management and stock brokerage, trade finance, payments and collections, insurance brokerage (which includes life and casualty insurance), savings instruments and foreign currency services.

Installment Loans

Our consumer installment loans are generally incurred, up to a customer s approved credit limit, to afford purchases of goods and/or services, such as cars, travels, household furnishings and education, among others. Consumer loans may be denominated in both pesos and UF, bear fixed or variable interest rates and are generally repayable in installments over a period of up to 36 months.

As of December 31, 2015, we had Ch$ 3,036,513 million in installment loans granted by our Individual and SME Banking Unit, which accounted for 81.4% of the retail market business segment s consumer loans. Most of these installment loans are denominated in Chilean pesos and are payable monthly.

Residential Mortgage Loans

As of December 31, 2015, we had outstanding residential mortgage loans of Ch$6,404,986 million (under Internal Reporting Policies), which represented 26.1% of our total loan book as of the same date. According to information published by the SBIF, as of December 31, 2015, we were Chile s second largest privately-owned bank in terms of year-end mortgage loans balances, accounting for approximately 17.6% of mortgage loans granted by the Chilean banking industry, excluding operations of banks subsidiaries operating abroad.

Our residential mortgage loans are generally denominated in UF and have maturities ranging from five to thirty years. As of December 31, 2015, the average residual maturity of our residential mortgage loan portfolio was 17.1 years. Originally, we funded our residential mortgage loans through the issuance of mortgage finance bonds, which are recourse obligations only to us with payment terms that are matched to the residential loans. Also, the mortgage finance bonds bear real market interest rates plus a fixed spread over the variable rate of the UF, which permits us to reduce our exposure to interest rate fluctuations and inflation. Chilean banking regulations allow us to finance up to 100% of a residential mortgage loan with mortgage finance bonds, based on the purchase price of the property securing the loan or the appraised value of such property. In addition, we generally require that the monthly payments on a residential mortgage loan not exceed 25% of the borrower s household after tax monthly income, when the customer belongs to the low income population segment. However, that limit may be adjusted for the middle and high income population segments.

Over the last decade, we have also promoted the expansion of *Mutuos Hipotecarios*, a mortgage lending product, which is not financed by mortgage finance bonds, but instead through our general funds. *Mutuos Hipotecarios* allow customers to finance up to 100% of the purchase price or the appraised value of the property, whichever is lower, instead of the 75% that a standard mortgage would allow. As of December 31, 2015, our residential mortgage loan portfolio was principally composed of *Mutuos Hipotecarios*, as customers have preferred them due to their flexibility and simplicity (for instance the interest rate is known in advance by the customer, which is not the case of mortgage finance bonds that are traded in the secondary market and, therefore, subject to discounts), as they permit financing of up to 100% of the properties purchase price and are easier to prepay.

The following table sets forth the composition of our residential mortgage loan portfolio by product type:

		As of December 31, 2015 (in millions of Ch$, except percentages)	
BANK S INTERNAL REPORTING POLICIES:			
Secured Residential Mortgage Loans(1)			
Loans financed with *Mortgage Bonds*	Ch$	53,620	0.8%
Mutuos Hipotecarios		6,351,366	99.2
Total Secured Residential Mortgage Loans	**Ch$**	**6,404,986**	**100.0%**

(1) Corresponds to the Bank s total secured residential mortgage loans and not only those associated with the Individual and SME Banking Unit of the Commercial Division.

Table of Contents

As shown above, as of December 31, 2015 residential mortgage loans related to *Mutuos Hipotecarios* represented 99.2% of our total residential mortgage loan portfolio, while the remaining 0.8% corresponded to mortgage loans financed with *Mortgage Bonds*. As of the same date, the *Mutuos Hipotecarios* portfolio had an average origination period of 4.4 years (the period from the date when the loans were granted to the specified date) and just 1.0% of these loans were granted by CrediChile. Conversely, as of December 31, 2015 loans financed with *Mortgage Bonds* had an average origination period of 14.6 years (the period from the date when the loans were granted) and 23.0% of these loans were granted by CrediChile. In terms of credit risk, in 2015, loans related to *Mutuos Hipotecarios*, as well as those financed with *Mortgage Bonds*, had low gross (before recoveries) credit risk ratios of 0.23% and 0.51%, respectively. The difference between both ratios is explained by the previously mentioned factors and also by the Bank s stricter requirements to grant *Mutuos Hipotecarios*. It is important to mention that the residential mortgage loan portfolio financed with *Mortgage Bonds* is annually decreasing in amount and as a proportion of the total residential mortgage loan portfolio because it is composed of old loans and the instrument is no longer used by customers that prefer *Mutuos Hipotecarios*. Accordingly, the portfolio of residential mortgage loans financed with *Mortgage Bonds* is expected to have increasing gross credit risk ratios over time until its expiration, because the portion of non-performing loans becomes higher as long as responsible borrowers terminate their liability with the bank.

Regarding *Mortgage Bonds* that finance residential mortgage loans, the Bank is solely responsible for the payment of the Mortgage Bond obligation to the mortgage bond holders, regardless of the payment behavior of the residential mortgage borrower. Accordingly, in the ordinary course of business, none of our residential mortgage loans serves as a guarantee or collateral for our mortgage bonds.

For those loans that finance a higher portion of the property appraised value, we demand that customers comply with stricter requirements, which are verified during the credit assessment stage. These requirements are related to: (i) the history of the relationship between the Bank and the customer (new or current client), (ii) credit risk scores, (iii) monthly income, (iv) type of job (employed or self-employed), and (v) years employed. In order to illustrate the above mentioned, the table below sets forth an example of requirements for residential mortgage loans that finance up to 90% and more than 90% of the property value, with a common term and granted to employed as well as self-employed new customers.

Credit granting Requirements
(in millions of Ch$, except percentages)

New Clients	**Requirements (in millions of Ch$, except percentages)**	
Loan / Property value	**≤ 80%**	**> 80%**
Employed		
Years employed	> 1 year	> 2 years
Monthly Income	> Ch$0.5	> Ch$1.0
Self-Employed		
Years Employed(1)	> 2 years	> 3 years
Monthly Income	> Ch$0.5	> Ch$1.2

(1) In the case of self-employed clients, years employed refers to the minimum period of time in which the customer has been filing annual tax declarations with the Chilean Internal Revenue Service.

During 2015, 14.9% of the residential mortgage loans granted to our customers financed between 90% and 100% of the property value. Similarly, during 2015, loans financing between 75% and 90% of the property appraised value represented 45.8% of these loans, loans financing between 50% and 75% of the property value represented 29.6% of these loans, and loans financing less than 50% of the property value represented 9.7% of these loans. It is important to mention that during 2015, and according to our prudent risk approach, we continued tightening our credit granting policy for residential mortgage loans by restricting the loan financing limit as a percentage of the property s value. This explains the decrease in the share of residential mortgage loans that financed between 90% and 100% of the property value from 33.4% in 2013 to 27.8% in 2014 and 14.9% in 2015.

An additional feature of our mortgage loans is that mortgaged property typically secures all of the mortgagor s credit with us, including installment loans and due balances associated with credit cards and credit

Table of Contents

lines. Our total amount of loans secured by real estate guarantees, their loan to value (LTV) ratio and their relative share in our total loan portfolio, as of December 31, 2015, are depicted in the table below:

	As of December 31, 2015 (in millions of Ch$, except percentages)		
	Outstanding Balance	**LTV(2)(3)**	**% of Bank s Total Loans**
BANK S INTERNAL REPORTING POLICIES:			
Secured Loans(1)			
Residential Mortgage Loans	6,404,986	70.2%	26.1%
Other than mortgage loans	750,552	27.6	3.1
Total Secured Loans	**7,155,538**	**78.4%**	**29.2%**

(1) Corresponds to the Bank s total secured loans and not only those associated with the Individual and SME Banking Unit of the Commercial Division

(2) LTV ratio is computed as the amount of secured loans divided by the value of their associated collateral.

(3) For other-than-mortgage loans, the LTV ratio is computed as the amount of the excess guarantee (after deductions) of the balance of the associated residential mortgage loans, as those guarantees are initially established in order to secure the residential mortgage loan.

The LTV ratios provided above are based on estimated property values that we update monthly with the collateral valuation models managed by our Corporate Risk Division. These models determine a rate of depreciation that provides an updated collateral value, based on variables such as geographic location, last appraisal date, type of property and type of customer. Accordingly, the LTV ratios set forth above take into account the most recent available data regarding collateral values.

In addition, the following table sets forth the composition of the other-than-mortgage loans secured by real estate guarantees:

	As of December 31, 2015 (in millions of Ch$, except percentages)	
BANK S INTERNAL REPORTING POLICIES:		
Secured Other-than-Mortgage Loans(1)		
Consumer Loans	480,812	64.1%
Credit Lines	64,949	8.6
Credit Cards	204,791	27.3
Total Secured Other-than-Mortgage Loans	**750,552**	**100.0%**

(1) Corresponds to the Bank s total secured Other-than-Mortgage Loans and not only those associated with the Commercial Division (Individual and SME Banking).

Unlike in other countries, in addition to the specific legal rights afforded by the mortgage loan (including foreclosure rights), the Bank may collect the pending balance of the mortgage loan over other assets of the mortgage debtor based on certain legal liens provided by law (*derecho de prenda general*). Regarding the foreclosure processes, as permitted by Chilean regulations we may write-off secured loans (such as residential mortgage loans) the earlier of 48 months from the date the loans become overdue and once we have made all efforts for recovering the past-due loans without success. This applies to residential mortgage loans financed with mortgage finance bonds as well as for *Mutuos Hipotecarios*. Our foreclosure processes comply with the procedures specified by Chilean regulation. However, as we strive to continuously improve our collection processes, we have achieved average terms of 30 months for foreclosures associated with residential mortgage loans.

As for our historical loss rates, we periodically review our collateral pricing models by adjusting the parameters that support them, such as appreciation and depreciation rates, as well as updated recovery and loss rates, based on historical and empirical data. Thus, we normally revise our collateral pricing models by incorporating updated information from re-appraised assets or foreclosure processes that have been completed by the Bank in the past.

In addition, the valuation of guarantees is based on a prudent approach, which aims to anticipate and cover unexpected reductions in their market price as a result of changes in market variables, such as an unforeseen slowdown in the global or local economy, lack of liquidity of real estate assets or decrease in real salaries. Accordingly, our collateral pricing models depreciate the value of the guarantee regarding the market value determined by an independent appraiser. This approach has allowed us to minimize the loss rates, as the value obtained from auctions (if foreclosure applies) generally exceeds the value assigned to the asset as guarantee.

Credit Cards

As of December 31, 2015, we issued both individual and corporate Visa, MasterCard and Diners Club credit cards (as of early 2016, we no longer offer Diners Club credit cards). In addition to traditional credit cards, our portfolio also includes co-branded cards. As of December 31, 2015, we had three loyalty programs or cobranding agreements, namely Travel Club, Entel Visa and Global Pass. Credit cards issued under these cobranding agreements supplemented the credit cards that we issued under the brand names Banco de Chile, Banco Edwards|Citi and Banco CrediChile. In addition, as of December 31, 2015, we offered seven types of credit cards, targeting diverse types of segments and encompassing different benefits, including: Visa Infinite, MasterCard Black, Visa Signature, Visa or MasterCard Platinum and Dodada Nacional and Internacional.

Two of our affiliates, Transbank S.A. and Nexus S.A., provide us with merchant acquisition and credit card processing services. As of December 31, 2015, Transbank S.A. had thirteen shareholders (including us) and Nexus S.A. had seven shareholders (including us), all of which were banks. As of the same date, our equity ownership in Transbank S.A. was 26.16% and our equity ownership in Nexus S.A. was 25.81%.

As of December 31, 2015, we had 1,543,078 valid credit card accounts, with 1,724,422 credit cards issued to individuals and small and medium sized companies (including credit cards issued by CrediChile). Total charges on our credit cards during 2015 amounted to Ch$3,262,659 million, with Ch$ 2,753,235 million corresponding to purchases in Chile and abroad and Ch$509,424 million corresponding to cash withdrawals both within Chile and abroad. These amounts of purchases and withdrawals (which include charges associated with credit cards issued by CrediChile) accounted for 23.4% of the total charge volume of banks credit cards in Chile in 2015, according to statistics provided by Transbank S.A.

As of December 31, 2015, our credit card loans to individuals and small and medium sized companies amounted to Ch$934,760 million and represented 25.1% of our retail market business segment s consumer loans.

We believe that the Chilean market for credit cards has a high growth potential, especially among lower and middle income customer segments, as the average merchant fees should continue to decline due to increasing competition from other banks that operate in Chile, as well as large department stores and other non-banking competitors that are involved in the issuance of credit cards. As a result, we strive to develop customized commercial strategies to reinforce this payment channel by applying business intelligence tools that enable us to satisfy the needs of our diverse customer base. Based on this strategy, in 2015, our stock of credit cards increased by approximately 49,732 in number of credit cards issued and by 46,777 in number of credit card accounts opened as compared to 2014.

Commercial Credits

Commercial loans granted by our Individual and SME Banking Unit mainly consist of project financing and working capital loans granted to small and medium sized companies, which are denominated in Chilean pesos, UF and U.S. dollars and may bear fixed or variable rates of interest and generally mature between one and three months. As of December 31, 2015, our Individual and SME Banking Unit had outstanding commercial loans of Ch$2,752,823 million, representing 20.3% of the retail banking segment s total loans and 11.2% of our total loans as of the same date.

Leasing Contracts

Leasing contracts are financial leases for capital equipment and property. Leasing contracts may bear fixed or variable interest rates and they generally have terms that range from one to five years for equipment and from five to twenty years for properties. Most of these contracts are denominated in UF. As of December 31, 2015, our Individual and SME Banking Unit had outstanding leasing contracts of Ch$370,284 million, representing 2.7% of the retail banking segment s total loans and 1.5% of our total loans as of the same date.

Table of Contents

Non-Residential Mortgage Loans

Non-residential mortgage loans granted to individuals and small and medium sized companies are loans intended to finance the acquisition of offices, land, facilities and other real estate assets. Non-residential mortgage loans are denominated in UF and generally have maturities between eight and twelve years. As of December 31, 2015, our Individual and SME Banking Unit had non-residential mortgage loans of approximately Ch$22,621 million, representing 0.2% of the retail banking segment s total loans and 0.1% of our total loans as of the same date.

Debit Cards

We offer different types of debit cards to our customers. Depending on their specifications, these cards can be used for banking transactions at ATMs that operate on the local network provided by Redbanc and the local network of merchants participating in the local Redcompra debit program. Also, our debit cards can be used internationally through the Visa International PLUS network or the international network of merchants associated with the Electron program. We name these debit cards depending on the card s specific features and the link between the brand and target market which they serve. During 2015, we offered the following cards: Chilecard Electron, Chilecard Plus, Chilecard Normal, Banjoven, Multiedwards and Citicard. As of December 31, 2015, according to monthly statistics provided by Transbank S.A., the Individual and SME Banking Unit held a 13.6% market share of debit card transactions (not including debit cards issued by Banco CrediChile, as those are reported under our Consumer Finance Division), which corresponds to approximately 86 million transactions throughout the year.

Lines of Credit

As of December 31, 2015 the Individual and SME Banking Unit had approximately 654,894 approved lines of credit to individual customers and small and medium sized companies. Also, the unit had outstanding advances to 388,664 individual customers and small and medium sized companies that totaled Ch$295,878 million, or 2.2% of the retail banking segment s total loans and 1.2% of our total loans.

Our lines of credit for individual customers are generally available on a revolving basis, up to an approved credit limit, and may be used for any purpose. Advances under lines of credit are denominated in Chilean pesos and bear an interest rate that is set monthly.

Deposit Products

We strategically offer deposit products to increase our deposit-taking activities as a means of diversifying our sources of funding. We believe that the deposits of our individual customers provide us with a relatively low-cost, stable source of funding, as well as an opportunity to cross-market our other products and services. In this regard, we offer current accounts, time deposits and savings accounts to our individual customers. Current accounts are Chilean peso-denominated and the majority bear no interest (approximately 0.08% or 666 of our total current accounts are interest-bearing), and savings accounts are denominated in UF and bear a fixed-interest rate. Time deposits may be denominated in Chilean pesos, UF and U.S. dollars and most bear interest at a fixed rate with terms that range between 30 to 360 days.

While demand has historically been focused on UF-denominated deposits during periods of high inflation, demand for Chilean peso-denominated deposits has increased in recent years as a consequence of lower and more stable inflation rates in Chile. This trend also occurred during the financial crisis of 2008 and 2009, when we benefited from a flight-to-quality effect. In fact, amid the high volatility and low interest rates observed in the financial markets throughout 2008 and 2009 (in line with monetary stimulus undertaken by central banks worldwide) customers increasingly deposited their funds in our current accounts, particularly those denominated in Chilean pesos, as they preferred liquidity to investing in products with low profitability, given the decrease in nominal interest rates. A similar phenomenon took place in 2014 and 2015 as a result of the Chilean Central Bank s monetary stimulus plan in response to Chile s economic slowdown towards the end of 2013. As low interest rates have prevailed in Chile during 2014 and 2015, interest rates paid on Chilean peso-denominated saving accounts and time deposits have remained low. This trend encouraged investors to opt for current accounts over interest-bearing

Table of Contents

deposits. As a result, average balances of current accounts and demand deposits managed by our Individuals and SME Banking Unit increased by 12.8% and 17.6% in 2014 and 2015, respectively.

Consumer Finance Division (Banco CrediChile)

The Consumer Finance Division provides loans and other financial services to low and middle income segments (individuals whose monthly incomes range from Ch$170,000 to Ch$ 500,000), which historically have only been partially served by financial institutions. Also, our Consumer Finance Division serves micro businesses. Banco CrediChile represents an alternative delivery channel for our products and services to these segments, maintaining a separate brand supported by a network of 126 Banco CrediChile branches as of December 31, 2015. Banco CrediChile was established in 2004 from what was formerly our consumer banking division. During 2008, Banco CrediChile was merged with the consumer division of Citibank Chile (Corporación Financiera Atlas S.A.) as a consequence of our merger with Citibank Chile.

Banco CrediChile offers its customers a variety of banking products, such as consumer loans, credit cards, residential mortgage loans and a demand deposit account (see CuentaChile Demand Accounts) targeted at lower income customers. As of December 31, 2015, Banco CrediChile had 1,036,401 customers and total loans outstanding that amounted to Ch$803,479 million, representing 3.3 % of our total loans outstanding as of the same date.

The following table sets forth the composition of Banco CrediChile s loan portfolio in accordance with our internal reporting policies, as of December 31, 2015:

	As of December 31, 2015 (in millions of Ch$, except percentages)	
BANK S INTERNAL REPORTING POLICIES:		
Consumer loans		
Installment loans	613,841	76.4%
Credit cards	79,325	9.9
Lines of credit and other consumer loans	268	0.0
Total consumer loans	693,434	86.3
Residential mortgage loans	**78,514**	**9.8**
Commercial loans	31,531	3.9
Total	**803,479**	**100.0%**

Our Consumer Finance Division focuses on developing and marketing innovative and customized products targeted to satisfy the needs of its customers while introducing them to the banking system. Banco CrediChile complements the services offered by our other business segments, especially our wholesale market segment, by offering services to employers, such as direct deposit capabilities for payroll payment purposes, which in turn enable employees to use our deposit services.

In recent years, CrediChile has strived to improve its value offering services by designing and implementing two new financial services, Caja Chile and Microbusiness Banking . The former consists of a limited range of basic financial services (e.g. deposits, withdrawals and bill payments) offered to customers and non-customers through remote IT platforms located in small convenience stores within socially and/or geographically isolated areas of Chile. On the other hand, the Microbusiness Banking is a specialized portfolio of financial services designed for Microbusiness (generally personal businesses) that includes financial advisory, lending and non-lending products and general financial solutions for a segment that has been traditionally uncovered by the banking services.

During 2015, Banco CrediChile continued to enhance these service models as we believe they are a suitable means to penetrate those segments by offering ground breaking banking solutions. As of December 31, 2015, Banco CrediChile had 2,138 CajaChile locations in diverse convenience stores located throughout geographically and/or socially isolated areas. Through these networks, CrediChile provides its customers with a basic array of financial services including bill payments, deposits, installments loans payments and cash withdrawals. As of the same date, commercial loans granted to microbusinesses accounted for approximately Ch$31,531 million, associated with nearly 37,000 customers. Also, during 2015 Banco CrediChile continued to implement different procedures intended to improve operational efficiency and productivity, enhancing remote contact channels and mobile banking. Due to this strategy, CrediChile reached approximately 177,000 mobile banking users, which is a significant achievement within the targeted segment. In addition, throughout 2015, Banco CrediChile continued to promote CuentaChile by adding new benefits for users to enhance loyalty among its customers. Finally, during 2015, Banco CrediChile widened its customer base by adding approximately 139,000 new payroll payment accounts and approximately 77,000 agreements for payroll credits.

Banco CrediChile employs a specific credit scoring system, developed by our corporate risk division, as well as other criteria to evaluate and monitor credit risk. Thus, in order to ensure the quality of its loan portfolio, Banco CrediChile adheres to our general loan origination procedures, particularly with regard to the use of our credit scoring system and credit management policies, including the use of credit bureaus and the services of the SBIF. In addition, Banco CrediChile carries out rigorous procedures for collection of past-due loans through Socofin S.A., our specialized collection subsidiary. We believe that we have suitable procedures and infrastructure in place to manage the risk exposure of Banco CrediChile. These procedures allow us to take advantage of the attractive growth and earnings potential of this market segment while helping to manage exposure to higher risk. See Item 3. Key Information Risk Factors Risks Relating to our Operations and the Chilean Banking Industry The growth of our loan portfolio may expose us to increased loan losses and Item 3. Key Information Risk Factors Risks Relating to our Operations and the Chilean Banking Industry Our loan portfolio may not continue to grow at the same or similar rate.

Consumer Lending

Banco CrediChile provides short to medium term consumer loans and credit card services. As of December 31, 2015, Banco CrediChile had approximately 297,238 consumer loan debtors related to installment loans amounting to Ch$613,841 million. As of the same date, Banco CrediChile had outstanding loan balances related to credit cards that amounted to Ch$79,325 million.

CuentaChile Demand Accounts

Banco CrediChile launched CuentaChile Demand Accounts in 2014, offering its customers a deposit product that is flexible and easy to use. This product allows us to tap into a section of the consumer market that otherwise would not be able to access and participate in the banking system because of their risk profile. The CuentaChile Demand Account is a non-interest bearing demand deposit account without checking privileges that targets customers who want a secure and comfortable means of managing and accessing their money. Customers holding this account may use an ATM card linked to their CuentaChile Demand Account to make deposits or automatic payments to other Banco CrediChile accounts through a network of 7,932 ATMs available through the Redbanc network as of December 31, 2015. Also, CuentaChile Demand Account holders may execute transactions in all CrediChile branches and carry out basic banking operations in the CajaChile nationwide network, which is present in most of the Chilean regions and communities. Also, CuentaChile Demand Account holders are entitled to make use of Internet-based banking platforms and mobile applications provided by Banco CrediChile to its customers while receiving electronic money transfers and benefiting from diverse loyalty programs designed by Banco Credichile, under the Cuenta Chile Club, which include discounts and special offers in a wide array of stores and services. Banco CrediChile previously offered its customers traditional demand accounts (each known as a CrediChile Demand Account) that entitled their holders to receive payroll deposits, withdraw money from ATMs and perform basic purchasing transactions. The CuentaChile Demand

Account replaced and improved the former product offered by CrediChile by adding further benefits to their holders.

As of December 31, 2015, Banco CrediChile had approximately 512,100 active CuentaChile Demand accounts. Holders of these accounts pay an annual fee, a fee related to the number of withdrawals on the account line of credit and interest on any outstanding balance under the line of credit. All fees and interest due on a CuentaChile Demand Account are withdrawn automatically on a monthly basis from funds available in the account. CuentaChile Demand Account allows us to offer our wholesale customers the ability to pay their employees by direct deposit of funds into the individual employee s account at Banco CrediChile. We believe this product can lead to stronger long term relationships with our wholesale customers and their employees.

Table of Contents

Wholesale Banking Segment

Our wholesale banking segment serves the needs of corporate customers. In 2015, this business segment recorded annual operating revenues of approximately Ch$464,497 million, which represented 27.9% of our total operating revenues. Also, for the year ended December 31, 2015 this segment recorded an income before income tax of Ch$247,701 million, which represented 39.9% of our consolidated income before income tax. As of December 31, 2015, loans granted by this business segment amounted to Ch$11,008,163 million and represented 44.8% of our total loan portfolio.

The following table sets forth the composition of our portfolio of loans to the wholesale market in accordance with our internal reporting policies, as of December 31, 2015:

	As of December 31, 2015 (in millions of Ch$, except percentages)		
BANK S INTERNAL REPORTING POLICIES:			
Commercial credits	Ch$	8,019,101	72.9%
Foreign trade loans		1,368,057	12.4
Leasing loans		1,004,571	9.1
Factoring loans		419,539	3.8
Other loans		196,895	1.8
Total	**Ch$**	**11,008,163**	**100.0%**

As of December 31, 2015, we had 9,585 debtors out of a total of 20,338 wholesale customers. Our wholesale customers are engaged in a wide range of economic sectors. As of December 31, 2015, loans granted by our wholesale banking segment were mainly related to:

- financial services (approximately 25.4% of all loans granted by this business segment);
- manufacturing (approximately 14.9% of all loans granted by this business segment);
- commerce and trade (approximately 14.6% of all loans granted by this business segment);
- communication and transportation (approximately 12.6% of all loans granted by this business segment);
- construction (approximately 12.3% of all loans granted by this business segment);

- agriculture, forestry and fishing (approximately 5.6% of all loans granted by this business segment);

- utilities (approximately 4.1% of all loans granted by this business segment);

- community, social and personal services (approximately 3.8% of all loans granted by this business segment); and

- mining (approximately 2.6% of all loans granted by this business segment).

In line with our strategy of identifying and differentiating market segments in order to provide improved value propositions for a diversified customer base, two of our divisions provide our wholesale customer base with banking and financial products and services: (i) the Corporate Division and (ii) the Commercial Division, through the Large Companies and Real Estate Unit.

Corporate Division

The Corporate Division provides services to corporations with annual sales exceeding approximately Ch$70,000 million. This division s customers consist of a large proportion of Chile s publicly-traded and non-listed companies, subsidiaries of multinational companies and conglomerates (including those operating in the financial, commercial, manufacturing, industrial and infrastructure sectors), and projects and concessions.

Table of Contents

As of December 31, 2015, we had 950 corporations as debtors out of a total of 2,905 customers in our Corporate Division. Also, this division managed total outstanding loans of Ch$4,367,144 million, which represented 17.8% of our total loan book as of the same date.

The following table sets forth the composition of our Corporate Division s loan portfolio in accordance with our internal reporting policies, as of December 31, 2015:

		As of December 31, 2015 (in millions of Ch$, except percentages)	
BANK S INTERNAL REPORTING POLICIES:			
Commercial credits	Ch$	3,535,776	81.0%
Foreign trade loans		483,822	11.1
Factoring loans		132,603	3.0
Leasing loans		86,779	2.0
Other loans		128,164	2.9
Total	**Ch$**	**4,367,144**	**100.0%**

We offer a wide range of products to large corporations that include short- and long-term financing, working capital loans, mortgage loans, leasing, long-term syndicated loans and factoring, as well as investment banking services offered by our subsidiary Banchile Asesoría Financiera S.A. We also offer payment services (payrolls, suppliers, pensions, dividends, etc.), collection services and connections to international funds transfer networks, as well as traditional deposit products, in particular current accounts.

As of December 31, 2015, we were party to approximately 1,619 payment service contracts and approximately 300 collection service agreements with corporations. We believe that cash management and payment service contracts provide us with a source of low cost deposits and the opportunity to cross sell our products and fees to payees, many of whom maintain accounts with us. Under our collection contracts, we act as a collection agent for our corporate customers, providing centralized collection services for their accounts receivable and other similar payments. For the year ended December 31, 2015, joint volumes associated with collection and payment agreements increased by approximately 6.5%.

In order to provide highly competitive and differentiated services, our Corporate Division has the direct support of our Treasury and Money Market Operations segment, which directly fulfills our corporate customers liquidity, short-term loans and hedging needs. We have also improved our technology to facilitate connections with customers and enhance their self-service practices. Similarly, we offer derivative products, which we believe have become increasingly important, especially those associated with Chilean peso-U.S. dollar and UF-U.S. dollar forward contracts and interest rate swaps.

In recent years, the market for loans to corporations in Chile has been characterized by reduced margins due to increasing competition. This fierce competition has involved not only local banking players but also, increasingly, overseas lenders who are eager to lend to Chilean companies that hold high credit ratings. Consequently, we have focused on optimizing the profitability in this segment through enhancing our cross sell fee generating services, such as payroll processing, dividend payments and billing services, as well as computer banking services. This strategy has enabled us to maintain profitable relationships with our corporate customers while preserving the ability to extend credit when appropriate business opportunities arise.

During 2015, the division continued to enrich its value offering to satisfy customers needs. Thus, the Corporate Division, in association with our Financial Advisory subsidiary, was involved and focused on assisting local and foreign customers in some of the most important financial transactions carried out in the local market during 2015, including mergers and acquisitions, debt structuring and debt restructuring. Moreover, the division was active in providing trade finance loans to Chilean companies and extending working capital loans to foreign customers. This lending activity permitted the bank to recover a significant market share in commercial loans while prioritizing its risk-return equation. In all of these matters, the synergies that arise from the Global Connectivity Agreement with Citigroup have been important when assisting our corporate customers with off shore transactions.

Table of Contents

Large Companies and Real Estate Banking Unit Commercial Division

Our Large Companies and Real Estate Banking Unit provides companies with annual sales that range from approximately Ch$1,600 million to approximately Ch$70,000 million with a broad range of financial products and services (such as electronic banking, leasing, foreign trade and financial advisory). Customers served by this banking unit are those related to the commercial, manufacturing, agricultural, forestry, fishing, infrastructure and real estate sectors, among others.

As of December 31, 2015, we had 8,635 large companies and real estate debtors out of a total of 17,433 customers in this banking unit. Loans granted by the Large Companies and Real Estate Banking Unit amounted to Ch$6,641,019 million as of the same date, which represented 27.0% of our total loans.

The following table sets forth the loan portfolio composition of the Large Companies and Real Estate Banking Unit, in accordance with our internal reporting policies, as of December 31, 2015:

	As of December 31, 2015 (in millions of Ch$, except percentages)		
BANK S INTERNAL REPORTING POLICIES:			
Commercial credits	Ch$	4,483,325	67.5%
Leasing loans		917,792	13.8%
Foreign trade loans		884,235	13.3%
Factoring loans		286,936	4.3%
Other loans		68,731	1.1%
Total	**Ch$**	**6,641,019**	**100.0%**

Products and services offered by this banking unit are mainly related to commercial loans, lines of credit, foreign trade and foreign currency transactions, factoring services, leasing, mortgage loans, syndicated loans, mergers and acquisitions, debt restructuring assistance, payments and collections services, current accounts and related services, corporate credit cards, cash and investment management, forward contracts to hedge against currency fluctuations and insurance brokerage.

This banking unit aims to provide its customers with excellent service based on proactive financial support that enhances long term relationships with customers. Over time, the banking unit has developed service models intended to take advantage of synergies arising from the interaction of account and specialized support executives responsible for ensuring comprehensive customer service. These models have enabled this banking unit to strengthen customer relationships and product offerings.

In 2015, this banking unit continued strengthening its presence in commercial banking by taking advantage of specific market opportunities. As a result, this banking unit recorded an annual increase of 5.4% in average loans and 10.6% in year-end loan balances. Part of the increase was due to the acquisition of a local bank s portfolio of commercial loans for approximately Ch$564,000 million. In our view, this was an attractive business opportunity to broaden our business relationship with certain customers, who were also our customers, but also to gain new customers and improve our non-lending revenues through cross-selling. Additionally, the portfolio represents an attractive risk-return equation. Also, the loan book increase posted by this banking unit resulted from diverse financing projects including public housing programs, highways and bridge constructions and power plant implementations. In addition, this banking unit has continued to enhance its Family Office segment by granting more loans and by cross selling the lending business with deposits and general funds management. For this purpose, synergies arising from the collaboration between this banking unit and our mutual funds and securities brokerage subsidiary have been crucial. Thus, the ratio of assets under management to total loans in the Family Office segment increased from 1.8 in 2014 to 3.3 in 2015.

Our leasing, factoring and trade finance businesses are part of the Large Companies and Real Estate Banking Unit.

Table of Contents

Treasury and Money Market Operations

Our Treasury and Money Market Operations business segment provides a wide range of financial services to our customers, including currency intermediation, forward contracts, interest rate swaps, transactions under repurchase agreements and investment products based on bonds, mortgage finance bonds and deposits.

In addition, our Treasury and Money Market Operations business segment is focused on managing our currency, interest rate and maturity gaps, ensuring adequate liquidity levels, managing our investment portfolio and performing the intermediation of fixed-income instruments, currencies and derivatives. Interest rate gap management is aimed at generating an adequate funding structure, prioritizing our capitalization and asset and liability cost structure and funding source diversification.

The Treasury and Money Market Operations business segment is also responsible for: (i) the issuance of short- and long-term senior bonds, as well as long-term subordinated bonds, in Chile or abroad, (ii) monitoring compliance with regulatory deposit limits, technical reserves and maturity and rate matches/mismatches, (iii) monitoring our adherence to the security margins defined by regulatory limits, and risk limits for interest rate, currency and investment gaps. This segment continually monitors the Bank s cost of funding by benchmarking with the rest of the local financial system and financing alternatives in Chile or abroad.

Regarding funding functions carried out by our Treasury, during 2015, we continued to develop a funding diversification strategy by conducting important transactions in Chile and abroad. These transactions have been intended to not only take advantage of attractive interest rate opportunities but also to improve our liquidity standards by issuing debt of longer maturities that match long-term assets, as well as diversify our liability structure in terms of markets in which we raise funds.

In terms of long-term funding, 2015 was a record year in debt placements, which amounted to Ch$1,342,224 million (approximately U.S.$1,895 million). When compared to previous years, in 2015 we were less active in issuing bonds abroad due to less favorable market conditions, mainly for setting hedging positions. Accordingly, we met our financing needs by placing long-term bonds in the local market for approximately Ch$1,186,380 million (approximately U.S.$1,675 million), which was UF-denominated. Similarly, under our MTN Program we issued approximately Ch$155,844 million (approximately U.S.$220 million) of notes in diverse markets including two placements in Japan amounting to Ch$66,007 million (approximately U.S.$93 million) of notes, one placement in Hong Kong amounting to Ch$53,957 million (approximately U.S.$76 million) of notes and one placement in Germany amounting to Ch$35,880 million (approximately U.S.$76 million) of notes. During 2015 we updated our MTN Program up to an amount of U.S.$3 billion.

For short-term financing purposes we continued using our Commercial Paper Program in the United States by placing approximately Ch$1,128,183 million (nearly U.S.$1,593 million) of commercial paper. Nevertheless, given the short duration of these liabilities, as of December 31, 2015, we had an outstanding balance of approximately Ch$191,402 million (approximately U.S.$270 million) of commercial paper. Lastly, we conduct international bond issuances only if the cost (including costs of interest rate swaps and other transactional expenses) is below the cost of raising funds locally and the currency or interest rate exposure is fully hedged via cross currency swaps.

The funding functions carried out by our Treasury division are complemented by our international area, namely International Financial Institutions (IFI), which manages relations with correspondent banks worldwide, facilitating international payments and obtaining foreign currency financing for us. As of December 31, 2015, we have established a network of approximately 600 foreign banks, among which we maintained credit relationships with approximately 151 correspondent banks, from which we maintained 25 account relationships. IFI played an important role in structuring international transactions aimed at diversifying our funding.

Regarding the management of our securities portfolio, as of December 31, 2015, the portfolio amounted to Ch$1,850,837 million and was composed of available for sale securities that totaled Ch$1,007,263 million and securities held for trading amounting to Ch$843,574 million. As for the type of instruments included in our securities portfolio, as of December 31, 2015, 65.1% consisted of securities issued by local financial institutions, 18.2% consisted of securities issued by the Central Bank and the Chilean Government, 12.3% consisted of securities issued by non-financial Chilean corporate issuers and other securities and 4.4% consisted of securities issued abroad

Table of Contents

by foreign companies and central banks. Our investment strategy is designed to supplement our expected profitability, risks and economic variable projections while adhering to the regulatory guidelines and internal limits defined by our finance committee. In this regard, neither proprietary trading nor speculation on equity holdings are goals for us and, therefore, equity instruments only represented 0.4% of our investment portfolio as of December 31, 2015.

Operations through Subsidiaries

We have made several strategic long-term investments in financial services companies that are engaged in activities complementary to our commercial banking activities. In making these investments our goal is to develop a comprehensive financial group capable of meeting the diverse financial needs of our current and potential clients by offering traditional banking products and specialized financial services through our different subsidiaries.

The following table sets forth information with respect to our financial services subsidiaries in accordance with our internal reporting policies as of December 31, 2015:

	Assets		Equity (in millions of Ch$)		Net Income	
BANK S INTERNAL REPORTING POLICIES						
Banchile Administradora General de Fondos S.A.	Ch$	67,716	Ch$	57,540	Ch$	18,053
Banchile Asesoría Financiera S.A.		7,691		6,174		4,433
Banchile Corredores de Seguros Ltda.		12,745		6,293		2,186
Banchile Corredores de Bolsa S.A.		430,655		81,083		7,140
Banchile Securitizadora S.A.		624		549		56
Socofin S.A.		8,088		1,314		138
Promarket S.A.		2,331		927		93
Banchile Trade Services Limited (Hong Kong)	Ch$	10	Ch$	10	Ch$	(2)
Total	**Ch$**	**529,860**	**Ch$**	**153,890**	**Ch$**	**32,097**

The following table sets forth information with respect to our ownership interest in our financial services subsidiaries as of December 31, 2015:

		Ownership Interest	
	Direct (%)	**Indirect (%)**	**Total (%)**
Banchile Administradora General de Fondos S.A.	99.98	0.02	100.00
Banchile Asesoría Financiera S.A.	99.96		99.96
Banchile Corredores de Seguros Ltda.	99.83	0.17	100.00
Banchile Corredores de Bolsa S.A.	99.70	0.30	100.00
Banchile Securitizadora S.A.	99.01	0.99	100.00
Socofin S.A.	99.00	1.00	100.00
Promarket S.A.	99.00%	1.00%	100.00%
Banchile Trade Services Limited (Hong Kong)	100.00%	%	100.00%

Each of these subsidiaries is incorporated in Chile, except for Banchile Trade Services Limited, which is incorporated in Hong Kong.

On June 19, 2013, Banco de Chile acquired all of the shares of Banchile Factoring S.A. owned by Banchile Asesoría Financiera. As a result of this transaction, Banco de Chile fully acquired the assets and liabilities of Banchile Factoring S.A. and on June 30, 2013 this subsidiary was dissolved.

During 2014, we began a voluntary dissolution process for Banchile Trade Services Limited in Hong Kong, which is still in progress. We expect to complete this process during the second half of 2016.

Securities Brokerage Services

We provide securities brokerage services through Banchile Corredores de Bolsa S.A. Banchile Corredores de Bolsa S.A. is registered as a securities broker with the SVS, the regulator of Chilean publicly listed companies, and is a member of the Santiago Stock Exchange and the Chilean Electronic Stock Exchange. Since it was founded

Table of Contents

in 1989, Banchile Corredores de Bolsa S.A. has provided stock brokerage services, fixed income investments and foreign exchange products to individuals and companies through our branch network. During the year ended December 31, 2015, Banchile Corredores de Bolsa S.A. recorded an aggregate stock trading turnover on the Santiago Stock Exchange, the Chilean Electronic Stock Exchange and the Valparaíso Stock Exchange that amounted to approximately Ch$2,172,548 million, which represented a 6.4% market share within the Chilean stock market.

Also, as of December 31, 2015, Banchile Corredores de Bolsa S.A. had equity amounting to Ch$81,083 million and, for the year ended December 31, 2015, recorded net income of Ch$7,140 million, which represented 1.2% of our consolidated net income for that period (under the bank s internal reporting policies).

In early 2009, Citibank Agencia de Valores S.A. merged with and into Banchile Corredores de Bolsa S.A.

Mutual and Investment Fund Management

Since 1980, we have provided mutual fund management services through Banchile Administradora General de Fondos S.A. (formerly Banchile Administradora de Fondos Mutuos S.A.). As of December 31, 2015, according to data published by the Chilean Mutual Funds Association, Banchile Administradora General de Fondos S.A. was the largest mutual fund manager in Chile, managing approximately 21.3% of all Chilean mutual funds assets. Also, as of December 31, 2015, Banchile Administradora General de Fondos S.A. operated 77 mutual funds and had Ch$6,010,885 million in assets under management owned by 441,853 corporate and individual investors. As of the same date, Banchile Administradora General de Fondos S.A. operated 11 public investment funds (Chile Small, Chile Blend, Rentas Inmobiliarias I, V, VI and VII, Deuda Chile, Plusvalía, Latam High Yield, Minero Asset and Latam Small). As of December 31, 2015, Banchile did not manage private investment funds. However, as of December 31, 2015, Banchile managed a total amount of Ch$221,107 million in net assets on behalf of 259 participants.

The following table sets forth information regarding the various mutual funds managed by Banchile Administradora General de Fondos S.A. as of December 31, 2015:

		As of December 31, 2015	
Name of Fund	**Type of Fund**	**Net Asset Value (in millions of Ch$)**	**Number of Investors**
AHORRO	Fixed income (medium/long term)	296,972	28,345
ALIANZA	Fixed income (medium/long term)	96,900	21,044
ASIA	Equity	17,513	6,653
ASIATICO ACCIONARIO	Equity	17,864	8,370
BANCHILE-ACCIONES	Equity	17,695	3,461
BOOSTER ASIA EMERGEN	Structured	1,932	107
BOOSTER CHINA II	Structured	2,022	95
BOOSTER EUROPA II	Structured	6,362	161
BOOSTER JAPON	Structured	1,329	67
BOOSTER USA	Structured	7,364	159
BRIC ACCIONARIO	Equity	327	146
CAPITAL EFECTIVO	Fixed income (short term)	468,689	5,162

CAPITAL EMPRESARIAL	Fixed income (short term)	213,859	1,718
CAPITAL FINANCIERO	Fixed income (short term)	346,244	15,097
CAPITALISA-ACC.	Equity	1,668	1,523
CASH	Fixed income (short term)	147,570	7,196
CHILE 18 Q	Equity	20,964	7,218
CHILE ACCIONARIO	Equity	8,583	1,567
CORPORATE DOLLAR	Fixed income (short term)	612,946	19,168
CORPORATIVO	Fixed income (short term)	183,065	10,805
CRECIMIENTO	Fixed income (short/medium term)	70,093	11,101
DEPOSITO XXI	Fixed income (medium/long term)	540,878	28,422
DEUDA CORP. 3-5 AÑOS	Fixed income (medium/long term)	77,295	13
DEUDA DOLAR	Fixed income (medium/long term)	17,497	471
DEUDA ESTATAL	Fixed income (medium/long term)	7,150	733
DEUDA ESTATAL PESOS	Fixed income (medium/long term)	6,576	1,934
DEUDA ESTATAL UF 3-5	Fixed income (medium/long term)	27,382	16,791

Table of Contents

		As of December 31, 2015	
Name of Fund	Type of Fund	Net Asset Value (in millions of Ch$)	Number of Investors
DEUDA PESOS 1-5 AÑOS	Fixed income (medium/long term)	34,604	3,547
DISPONIBLE	Fixed income (short term)	40,660	30,807
DOLLAR INVESTMENT G.	Fixed income (medium/long term)	13,843	864
EMERGING	Equity	9,931	8,879
EMERGING MARKET	Equity	6,038	892
ESTRATEGIA AGRESIVA	Blend	12,617	1,160
ESTRATEGIA CONS	Blend	93,311	5,156
ESTRATEGIA MODERADA	Blend	80,835	4,742
ESTRATEGICO	Fixed income (medium/long term)	233,116	11,411
EURO MONEY MARKET	Fixed income (short term)	17,146	2,653
EUROPA DESARROLLADA	Equity	52,913	10,591
EUROPE EQUITY TAX AD	Equity	41,674	5
FLEXIBLE	Fixed income (short term)	51,084	8,146
GLOBAL DOLLAR	Equity	8,304	472
GLOBAL MID CAP	Equity	22,485	2,040
HORIZONTE	Fixed income (medium/long term)	288,809	23,786
INVERSION BRASIL	Equity	1,084	383
INVERSION CHINA	Equity	2,240	534
INVERSION DOLLAR 30	Blend	2,427	185
INVERSION USA	Equity	82,638	10,775
INVERSIONISTA I	Equity	9,536	151
JAPÓN ACCIONARIO	Equity	998	83
JAPÓN NIVEL 100	Structured	6,409	350
LATAM MID CAP	Equity	767	303
LATIN AMERICA	Equity	7,807	2,851
LIQUIDEZ 2000	Fixed income (short term)	283,475	21,166
LIQUIDEZ FULL	Fixed income (short term)	146,959	6,927
MID CAP	Equity	7,615	3,067
MULTIACTIVO AGRESIVO	Blend	13,232	1,681
MULTIACTIVO CONSERVA	Blend	24,457	1,164
MULTIACTIVO MODERADO	Blend	24,666	1,725
NIVEL 100	Structured	7,707	443
NIVEL 90	Structured	8,344	496
OPORTUNIDADES SECTOR	Equity	4,502	718
PACÍFICO ACCIONARIO	Equity	361	135
PATRIMONIAL	Fixed income (short term)	183,224	17,417
PERFORMANCE	Fixed income (short/medium term)	10,749	8,284
QUANT GLOBAL	Blend	3,636	450
REAL ESTATE EUROPE	Structured	3,215	121
RENDIMIENTO CORTO	Fixed income (short term)	128,572	96
RENTA FUTURA	Fixed income (medium/long term)	350,816	12,181
RETORNO ACCIONARIO	Equity	897	95
RETORNO DOLAR	Fixed income (medium/long term)	25,441	1,142
RETORNO L.P. UF	Fixed income (medium/long term)	28,476	1,741
SMALL - MID CAP USA	Structured	1,624	116
U.S. DOLLAR	Equity	15,954	682
US MID CAP	Equity	30,534	2,377
USA EQUITY	Equity	55,850	4
UTILIDADES	Fixed income (short/medium term)	294,704	30,535
VISION DINAMICA E	Blend	17,859	797
Total		**6,010,885**	**441,853**

As of December 31, 2015, Banchile Administradora General de Fondos S.A. had equity of Ch$57,540 million and, for the year ended December 31, 2015, net income of Ch$18,053 million, which represented 3.0% of our 2015 consolidated net income (under the bank s internal reporting policies).

Table of Contents

Financial Advisory Services

We provide financial advisory and other investment banking services to our customers through Banchile Asesoría Financiera S.A. The services offered by Banchile Asesoría Financiera S.A. are primarily targeted to our corporate customers and include advisory services concerning mergers and acquisitions, restructuring, project finance and strategic alliances. As of December 31, 2015, Banchile Asesoría Financiera S.A. had equity of Ch$6,174 million and, for the year ended December 31, 2015, recorded net income of Ch$4,433 million, which represented 0.7% of our 2015 consolidated net income (under the bank s internal reporting policies).

Insurance Brokerage

We provide insurance brokerage services to our customers through Banchile Corredores de Seguros Limitada (Banchile Corredores de Seguros LTDA.). In 2000, we began to offer life insurance policies associated with consumer loans and non-credit related insurance to our individual customers and the general public. As of December 31, 2015, Banchile Corredores de Seguros Limitada had equity of Ch$6,293 million and, for the year ended December 31, 2015 it recorded net income of Ch$2,186 million, which represented 0.4% of our 2015 consolidated net income (under the bank s internal reporting policies). According to the SVS, as of December 31, 2015, Banchile Corredores de Seguros Limitada had a 4.1% market share in the total amount of life and casualty insurance policies (in Chilean pesos) sold by insurance brokerage companies in Chile, excluding life annuities.

Securitization Services

We offer investment products to meet the needs of institutional investors, such as private pension funds and insurance companies, through Banchile Securitizadora S.A. This subsidiary securitizes financial assets, and issues debt instruments with credit ratings that can be traded in the Chilean marketplace, backed by a bundle of revenue producing assets of the client company. As of December 31, 2015, Banchile Securitizadora S.A. had equity of Ch$549 million and, for the year ended December 31, 2015, the subsidiary reported a net income of Ch$56 million (under bank s internal reporting policies). Also as of December 31, 2015, Banchile Securitizadora S.A. had a 13.6% market share in the total volume of assets securitized in Chile. This market share refers to the percentage of existing stock of securitized assets as of the mentioned date.

Credits pre-evaluation services

Promarket S.A. provides credit pre evaluation services to the Bank and its subsidiaries, including researching potential customers. As of December 31, 2015, Promarket S.A. had equity of Ch$927 million and, for the year ended December 31, 2015, it recorded net income of Ch$93 million (under the bank s internal reporting policies).

Collection Services

Socofin S.A. provides judicial and extra judicial loan collection services to the Bank. As of December 31, 2015, Socofin S.A. had equity of Ch$1,314 million and, for the year ended December 31, 2015, net income of Ch$138 million (under the bank s internal reporting policies).

Trade Services

In November 2004, we began offering direct trade services to our customers through Banchile Trade Services Limited, which acts as our trade finance entity in markets such as China, Hong Kong, Taiwan and South Korea. As of December 31, 2015, Banchile Trade Services Limited had equity of Ch$10 million and, for the year ended December 31, 2015, it recorded a net loss of Ch$2 million (under the bank s internal reporting policies).

Our Trade Services subsidiary in Hong Kong is in the process of voluntary dissolution, which we expect to complete during the second half of 2016.

Distribution Channels and Electronic Banking

Our distribution network provides integrated financial services and products to our customers through a wide range of channels. The network includes ATMs, branches, internet-based banking platforms, mobile banking

Table of Contents

applications and call centers. As of December 31, 2015, we had 1,441 ATMs (that form part of Redbanc s network of 7,932 ATMs) that allowed our customers to conduct self-service banking transactions during banking and non-banking hours.

As of December 31, 2015, we had a network of 419 retail branches throughout Chile. Our branch system serves as a distribution network for all of the products and services offered to our customers. Our full-service branches accept deposits, cash withdrawals, offer the full range of our retail banking products, such as consumer loans, credit cards, mortgage loans and current accounts, and provide financial and non-financial information to current and potential customers.

We offer electronic banking services to our customers 24 hours a day through our Internet website, www.bancochile.cl, which has tailored homepages for the different segments we serve. Thus, by accessing our website, our individual customers may execute electronic money transfers, access their account balances, pay utilities bills, apply for loans, purchase insurance premiums, and so on. On the other hand, our corporate homepage offers a broad range of services, including the payment of bills, electronic fund transfers, non-charge orders, as well as a wide variety of account inquiries. These services include our office banking service, Banconexion Web for Enterprises, which enables our corporate customers to perform all of their banking transactions from their offices. Our homepage also offers products with exclusive benefits provided by our customer loyalty marketing programs, which enhance our relationships with customers. Through the jointly administered website of Banchile Administration General de Fondos and Banchile Corredora de Bolsa, our mutual funds and securities brokerage subsidiaries, respectively, we also provide customers interested in investing and saving their funds with an Internet-based platform on which they can trade stocks and currencies, make time deposits and take positions in mutual funds, foreign stock markets, investments funds and derivatives. Our foreign trade customers can rely on our international business homepage, www.bancochile.com, which enables them to inquire about the status of their foreign trade transactions and perform transactions, such as opening letters of credit, recording import collection and hedging on instructions and letters of credit. According to our management information systems, on an average monthly basis, during 2015, approximately 30.3 million transactions were performed every month on our website, of which approximately 2.9 million were monetary transactions. Also, according to the SBIF, on average approximately 762,349 (including one time visits by both individuals and companies) accessed our website every month in 2015. This translated into approximately 33.4 million visits to our website in 2015, on an average monthly basis.

Also, we provide our customers with access to a 24-hour phone-bank through which they can access account information and execute certain transactions. This service, through which we receive over 403,769 calls per month on average, has enabled us to develop customer loyalty campaigns, sell financial products and services, answer specialized inquiries and receive and resolve complaints by customers and non-customers.

Lastly, over the last two years we have devoted efforts to enhance our mobile banking platforms by developing and launching diverse applications. In 2014, we released the mobile apps MiBanco | MiPago | MiBeneficio. Similarly, in 2015 we launched MiCuenta | MiPass | MiSeguro. MiBanco is a mobile banking platform that enables our customers to perform most of the operations they can execute on our website, such as accessing their account balances, making bill payments and electronic money transfers, carrying out cash advances from credit cards to checking accounts. MiPago is a specialized mobile application that permits requests for reimbursements from other Banco de Chile s customers and performs the transaction by generating and scanning a QR code, which reinforces the security standards for these types of operations. MiCuenta is a mobile application that enables users to make monthly payments associated with utility bills and other types of services. MiPass is a password-generating application that, among other features, allows users to set a list of money transfer recipients to make transfers without requiring another password-generating device. MiSeguro provides our customers with the ability to enroll in new insurance policies, to obtain information on their insurance premiums and to request post-sale support, all through the use of the smartphone application. As of December 31, 2015, approximately 6.4 million monetary transactions had been carried out through our mobile applications MiBanco, MiCuenta and MiPago.

Table of Contents

Competition

Overview

The Chilean market for banking and other financial services is highly and increasingly competitive and consists of various market sectors. The most important sector is commercial banking with total loans (excluding operations of subsidiaries abroad) representing 85.2% of the Chilean GDP as of December 31, 2015. As of the same date, the Chilean banking industry consisted of 24 banks, 23 of which were privately-owned and one government-owned bank, namely, Banco del Estado. As of December 31, 2015, the four largest Chilean banks accounted for approximately 64.4% of all outstanding loans granted by Chilean financial institutions (excluding operations of subsidiaries abroad): Banco Santander Chile (18.9%), Banco de Chile (18.3%), Banco del Estado (14.2%) and Banco de Crédito e Inversiones (12.9%).

We face significant and increasing competition in all market segments in which we operate. As a comprehensive commercial bank that offers a wide range of services to all types of enterprises and individual customers, we deal with a variety of competitors, ranging from large privately-owned commercial banks to more specialized entities, such as niche banks. We also increasingly face competition, from non-banking companies like large department stores, private compensation funds, and saving and credit cooperatives with respect to some of our credit products, such as credit cards and consumer loans. Furthermore, in recent years and given the outstanding credit rating held by the country, as well as the liquidity observed in overseas markets, local middle market, corporations and multinational branches in Chile have increasingly replaced loans rendered by local banks with off-shore long-term debt. In addition, we face competition from other types of competitors, such as leasing, factoring and automobile financing companies (especially in lending products), as well as mutual funds, pension funds and insurance companies, within the market for savings and mortgage loans. Nevertheless, banks continue to be the main suppliers of leasing, factoring and mutual funds, while the insurance brokerage business has become an important component of the value offerings provided by banks.

Within the local banking industry, our primary competitors are the main privately-owned commercial banks in Chile, namely, Banco Santander Chile, Banco de Crédito e Inversiones, Banco Bilbao Vizcaya Argentaria Chile (BBVA), and Corpbanca. Nevertheless, we also face competition from Banco del Estado, a government-owned bank, which has a larger customer base than we do. Banco del Estado, which operates under the same regulatory regime as Chilean privately-owned banks, was the third largest bank in Chile as of December 31, 2015, with outstanding total loans of Ch$19,071,559 million, representing a 14.2% market share (excluding operations of subsidiaries abroad), according to data published by the SBIF.

In the retail market, we compete with other privately-owned Chilean banks, as well as with Banco del Estado, which has a large individual customer base. Among privately-owned banks, we believe our strongest competitors in this market are Banco Santander Chile and Banco de Crédito e Inversiones, as these banks have developed diversified business strategies focused on both small and medium-sized companies and lower to middle income segments of the Chilean population. In addition, we believe our strongest competitors in the high income individual segment are Banco Santander Chile and Banco Itaú Chile, as these banks rely on specialized business models that provide wealth management and traditional banking services, as we do.

Historically, commercial banks in Chile have competed in the retail market against each other, and finance companies and department stores, with the latter two having traditionally been focused on consumer loans to low and middle-income segments. However, finance companies gradually disappeared between the 1990s and 2000s, as most of them merged into the largest commercial banks that dominate the Chilean banking industry today. Also, by the end of 1990s, the Chilean financial industry witnessed the rise of non-traditional banking competitors, such as large department stores. During the 2000s, these players gained increasing significance in the consumer lending sector, as they were permitted to issue financial products such as credit cards. Currently, there are three consumer oriented banks affiliated with Chile s largest department stores: Banco Falabella, Banco Ripley and Banco Paris. Although these banks had a combined market share (excluding operations of subsidiaries abroad) of only 1.6% as of December 31, 2015, according to the SBIF, the presence of these banks is likely to make consumer banking more competitive over the next few years, especially within the lower income segment. As of December 31, 2015, the consumer loans granted jointly by these banks represented a 9.0% of the total consumer loans rendered by the industry (excluding operations of subsidiaries abroad).

Table of Contents

In the wholesale market, we believe our strongest competitors are also Banco Santander Chile, Banco de Crédito e Inversiones, Corpbanca and Banco Bilbao Vizcaya Argentaria Chile (BBVA). Similarly, we believe these banks are our most significant competitors in the small and medium sized companies business segment.

We also compete, mainly through our subsidiaries, with companies that offer non-banking specialized financial services in the high-income individuals segment and the middle market and corporate segment such as Larrain Vial, BTG Pactual and IM Trust, whose core businesses are stock brokerage, financial advisory and wealth management services. Other Chilean commercial banks also compete in these markets of specialized financial services, but they are less focused on such businesses.

The Chilean banking industry has experienced increased levels of competition in recent years from domestic as well as foreign banks. This phenomenon has triggered a consolidation wave within the industry and the creation of more comprehensive banking entities that participate in most of our markets. Consequently, banks strategies have been increasingly focused on reducing costs and improving efficiency standards in order to compete effectively with the larger banks. Although we are making our best efforts in order to operate within this competitive environment, we acknowledge that our income may decrease as a result of increasing competition.

Regarding mergers and acquisitions events in the local banking industry, most of these transactions have involved international players seeking to participate in the local market. Thus, in mid-1996, Banco Santander of Spain took control of Banco Osorno and merged it into its Chilean operations, changing its name to Banco Santander-Chile. In January 1997, Banco O Higgins and Banco de Santiago merged, forming Banco Santiago and in 1999 Banco Santander of Spain acquired Banco Santiago. During 2001, Banco de Chile merged with Banco de A. Edwards, which was effective on January 1, 2002. In August 2002, Banco Santiago and Banco Santander Chile, then the second and fourth largest banks in Chile, respectively, merged and became Chile s largest bank under the Banco Santander-Chile brand name. In 2003, Banco del Desarrollo merged with Banco Sudamericano, and in 2004, Dresdner Banque Nationale de Paris merged with Banco Security. In 2005, Banco de Crédito e Inversiones merged with Banco Conosur. In 2007, Banco Itaú acquired Bank Boston unit in Chile, while Rabobank acquired HNS Bank and Scotiabank acquired Banco del Desarrollo. In 2008, we merged with Citibank Chile, and afterwards the Superintendency of Banks authorized the opening of a branch of the Norwegian bank DnB NOR and the acquisition of ABN Amro Bank by The Royal Bank of Scotland. In early 2009, the merger agreement between Scotiabank Sudamericano and Banco del Desarrollo was completed, through which the former became Scotiabank Chile and the latter ceased to exist. In addition, during 2009, Banco Monex was acquired by Consorcio Group, which absorbed the operations of the former and its subsidiaries, becoming Banco Consorcio. Furthermore, by the end of 2013 Corpbanca s controlling shareholders announced its intention to sell part of its stake to a local or international player. On January 29, 2014, Corpgroup (the controlling shareholder of Corpbanca) accepted the bid of Brazil s Itau Unibanco, through which Itau merges its own Chilean and Colombian subsidiaries with Corpbanca. The merged bank, on a pro forma basis, would have had a 12.3% market share as of December 31, 2015, excluding operations of subsidiaries abroad. According to publicly available information, this merger was approved by the SBIF in September 2015 and the merged company started operation on April 1, 2016.

In addition, consolidation and overseas expansion has emerged as a means of inorganic growth for local banks. Actually, during 2012 Corpbanca, fourth ranked among Chilean privately-owned banks in terms of total loans as of December 31, 2011, acquired a former Santander Group s subsidiary in Colombia and consolidated its balance sheet and results of operations beginning May 31, 2012. Also, by the end of 2012, Corpbanca made a bid for acquiring

Helm Bank in Colombia. According to publicly available information, the bid process was completed and fully authorized by the SBIF in July 2013 and Corpbanca started to consolidate the balance sheet of this new subsidiary beginning August 31, 2013. As of December 31, 2015, loans associated with Corpbanca s operations in Colombia amounted to Ch$5,208,214 million and represented 3.9% of the industry total loans.

Similarly, by the end of May 2013, Banco de Crédito e Inversiones (BCI) the third largest privately-owned bank in Chile in terms of total loans as of December 31, 2015, with a 12.9% market share (excluding operations of subsidiaries abroad) announced the acquisition of the City National Bank, headquartered in the United States. According to public information published by the SBIF, the process was fully authorized and completed in October 2015 and BCI started to consolidate the balance sheet on the same date. As of December 31, 2015, loans associated with BCI s operation in the United States amounted to Ch$2,888,336 million and represented 2.2% of the industry s total loans.

Furthermore, during 2014 the Chilean banking industry witnessed the entry of new market players and changes in the ownership structure of certain competitors. By the end of August 2014, Banco International announced the intention of *Inversiones la Construcción* (ILC) to take control of the bank by acquiring a 50.1% stake from the controlling shareholder, Baninter . Banco Internacional is a small bank within the Chilean banking industry and is mostly focused on the wholesale banking segment. As of December 31, 2015, Banco Internacional s loan book represented 0.6% of the total outstanding loans of the industry (excluding operations of subsidiaries abroad). On the other hand, on May 30, 2014 the SBIF authorized the existence and approved the bylaws of Banco BTG Pactual Chile. This bank, a Chilean subsidiary of Brazil-based bank BTG Pactual, was already operating in the Chilean financial industry since 2012, providing stock brokerage, mutual funds management and investment banking services. Banco BTG Pactual Chile received the final authorization to operate as a commercial bank on December 31, 2014 and officially started its commercial operations on January 23, 2015. As of December 31, 2015, the loan book of Banco BTG Pactual Chile represented only 0.02% of the total outstanding loans of the industry (excluding operations of subsidiaries abroad).

We expect these trends of increasing competition and consolidation to continue, particularly in connection with the formation of new large financial groups and the creation of new niche banks. Although we believe that we are currently large enough to compete effectively in all of our target markets, any further consolidation in the Chilean financial services industry may adversely affect our competitive position. We are working on developing and enhancing our competitive strengths to ensure our sustainability.

Below there is a set of tables and figures for the years ended December 31, 2013, 2014 and 2015 that shows our position within the Chilean financial industry. The market information is set forth under Chilean GAAP as published by the SBIF and unless otherwise indicated excludes data related to operations of subsidiaries abroad.

The following table sets forth certain statistical information on the Chilean financial system as of December 31, 2015, according to information published by the SBIF under Chilean GAAP:

	As of December 31, 2015 (in millions of Ch$, except percentages)							
	Assets		Loans(1)(2)		Deposits(2)		Equity(3)	
	Amount	Share	Amount	Share	Amount	Share	Amount	Share
CHILEAN GAAP:								
Private sector banks	171,059,762	84.0%	114,801,936	85.8%	88,645,180	79.9%	13,918,529	90.3%
Banco del Estado	32,549,582	16.0	19,071,559	14.2	22,286,194	20.1	1,493,967	9.7
Total banking system	**203,609,344**	**100.0%**	**133,873,495**	**100.0%**	**110,931,374**	**100.0%**	**15,412,496**	**100.0%**

Source: SBIF

(1) Loans to customers. Interbank loans are not included.

(2) Excludes operations of subsidiaries abroad.

(3) For purposes of this table, equity includes capital and reserves, net income for the period and provisions for minimum dividends.

Loans

We had total loans of Ch$ 24,558,041 million as of December 31, 2015, according to information published by the SBIF under Chilean GAAP. The following table sets forth our market share and the market share of our principal privately-owned competitors in terms of total loans, as of the dates indicated, according to information published by the SBIF under Chilean GAAP:

	Total Loans(1)(2) As of December 31, 2013	2014	2015
CHILEAN GAAP:			
Banco Santander Chile	19.2%	19.0%	18.9%
Banco de Chile	19.1	18.1	18.3
Banco de Crédito e Inversiones	13.2	13.1	12.9
Banco Corpbanca	7.3	7.4	7.2
BBVA Bilbao Vizcaya	6.9	6.9	6.7
Total market share	**65.7%**	**64.5%**	**64.0%**

Source: SBIF

(1) Allowances for loan losses not deducted.

(2) Excludes operations of subsidiaries abroad.

Table of Contents

Credit Quality

The following table sets forth the ratio of allowances to total loans of the largest private banks in Chile and that of the Chilean financial system as a whole (including such banks) as of December 31, 2013, 2014 and 2015, according to information published by the SBIF under Chilean GAAP:

	Allowances to Total Loans(1) As of December 31,		
	2013	**2014**	**2015**
CHILEAN GAAP:			
Banco Santander Chile	2.91%	3.06%	2.98%
Banco de Chile	2.30	2.42	2.45
Banco Corpbanca	2.35	2.25	2.40
Banco de Crédito e Inversiones	2.32	2.17	1.81
BBVA Bilbao Vizcaya	1.72	1.64	1.44
Financial system	**2.42%**	**2.45%**	**2.40%**

Source: SBIF

(1) Includes operations of subsidiaries abroad.

The following table sets forth the ratio of past-due loans (90 days or more) over total loans for the largest private banks in Chile as of December 31, 2013, 2014 and 2015 on an individual basis, according to information published by the SBIF under Chilean GAAP:

	Past-Due Loans to Total Loans(1)(2) As of December 31,		
	2013	**2014**	**2015**
CHILEAN GAAP:			
Banco de Chile	1.13%	1.25%	1.22%
Banco Corpbanca	1.21	1.48	1.33
BBVA Bilbao Vizcaya	1.50	1.59	1.42
Banco de Crédito e Inversiones	2.39	2.29	1.50
Banco Santander Chile	2.93	2.81	2.54
Financial system	**2.15%**	**2.12%**	**1.88%**

Source: Chilean SBIF

(1) The Superintendency of Banks only releases information about past-due loans (90 days or more) on an individual basis for Chilean banks.

(2) Past-Due loans refer to loans 90 days or more past-due, including installments that are overdue and the remaining amount of principal and interest.

Deposits

We had total deposits (including demand deposits and time deposits) of Ch$ 18,234,740 million as of December 31, 2015, according to information published by the SBIF under Chilean GAAP. The following table sets forth the market shares in terms of total deposits for private banks as of December 31, 2013, 2014 and 2015 on a consolidated basis, according to information published by the SBIF under Chilean GAAP:

	Total Deposits(1) As of December 31,		
	2013	**2014**	**2015**
CHILEAN GAAP:			
Banco Santander Chile	16.6%	16.8%	17.6%
Banco de Chile	17.8	16.6	16.4
Banco de Crédito e Inversiones	12.6	12.8	12.8
Banco Corpbanca	6.3	6.9	6.7
BBVA Bilbao Vizcaya	6.4	6.3	6.0
Total market share	**59.7%**	**59.4%**	**59.5%**

Source: SBIF

(1) Excludes operations of subsidiaries abroad.

Table of Contents

Capital and Reserves

The following table sets forth the level of capital and reserves for the largest private banks in Chile as of December 31, 2013, 2014 and 2015 according to information published by the SBIF under Chilean GAAP:

	Capital and Reserves(1)(2) As of December 31,					
		2013		2014		2015
CHILEAN GAAP:						
Banco de Chile	Ch$	2,095,296	Ch$	2,268,664	Ch$	2,505,561
Banco Santander Chile		2,044,834		2,257,747		2,450,665
Banco de Crédito e Inversiones		1,371,894		1,560,883		1,768,953
Banco Corpbanca		1,639,493		1,654,610		1,396,694
BBVA Bilbao Vizcaya	Ch$	631,434	Ch$	664,214	Ch$	704,040

Source: SBIF

(1) Capital and Reserves equals to total equity before provisions for minimum dividends and net income for the period.

(2) Includes operations of subsidiaries abroad.

Net Income attributable to Equity Holders

The following table sets forth the market shares in net income for privately-owned banks as of December 31, 2013, 2014 and 2015, according to information published by the SBIF under Chilean GAAP:

	Net Income(1)(2) As of December 31,		
	2013	2014	2015
CHILEAN GAAP:			
Banco de Chile	27.2%	24.4%	26.1%
Banco Santander Chile	23.4	22.7	20.9
Banco de Crédito e Inversiones	15.9	14.1	15.4
Banco Corpbanca	8.2	9.3	9.4
BBVA Bilbao Vizcaya	2.7	3.0	4.2
Total Market Share	**77.4%**	**73.5%**	**76.0%**

Source: SBIF

(1) Net income for the period attributable to equity holders.

(2) Includes operations of subsidiaries abroad.

Return on Capital and Reserves

The following table sets forth our return on capital and reserves and the returns on capital and reserves of our principal privately-owned competitors and the Chilean banking industry as a whole, in each case as of December 31, 2013, 2014 and 2015, according to information published by the SBIF under Chilean GAAP:

	Return on Capital and Reserves(1)(2) Year Ended December 31,		
	2013	**2014**	**2015**
CHILEAN GAAP:			
Banco de Chile	24.5%	26.1%	22.3%
Banco de Crédito e Inversiones	21.9	22.0	18.7
Banco Santander Chile	21.6	24.4	18.3
Banco Corpbanca	9.5	13.7	14.4
BBVA Bilbao Vizcaya	8.0	11.0	12.7
Financial System average	**15.9%**	**18.6%**	**15.1%**

Source: SBIF

(1) Corresponds to net income attributable to equity holders divided by the year-end balance of Capital and Reserves.

(2) Includes operations of subsidiaries abroad.

Table of Contents

Operating Revenues

The following table sets forth the market shares in terms of operating revenues for private banks as of December 31, 2013, 2014 and 2015, on a consolidated basis, according to information published by the SBIF under Chilean GAAP:

	Operating Revenues(1) As of December 31,		
	2013	**2014**	**2015**
CHILEAN GAAP:			
Banco Santander Chile	19.9%	19.5%	18.7%
Banco de Chile	20.0	19.1	18.6
Banco de Crédito e Inversiones	13.6	12.9	13.1
Banco Corpbanca	9.7	11.5	11.2
BBVA Bilbao Vizcaya	4.5	4.4	4.6
Total Market Share	**67.7%**	**67.4%**	**66.2%**

Source: SBIF

(1) Includes operations of subsidiaries abroad.

Operating Expenses

The following table sets forth the market shares in terms of operating expenses for privately-owned banks as of December 31, 2013, 2014 and 2015, on a consolidated basis, according to information published by the SBIF under Chilean GAAP:

	Operating Expenses As of December 31,		
	2013	**2014**	**2015**
CHILEAN GAAP:			
Banco de Chile	17.2%	16.7%	16.1%
Banco Santander Chile	17.1	16.5	15.8
Banco de Crédito e Inversiones	13.2	12.0	12.9
BBVA Bilbao Vizcaya	10.3	12.1	11.0
Banco Corpbanca	5.2	5.8	4.8
Total Market Share	**63.0%**	**63.1%**	**60.6%**

Source: SBIF

(1) Includes operations of subsidiaries abroad.

Efficiency

The following table sets forth the efficiency ratios of the largest private Chilean banks as of December 31, 2013, 2014 and 2015, according to information published by the SBIF under Chilean GAAP:

	Efficiency Ratio(1)(2) As of December 31,		
	2013	**2014**	**2015**
CHILEAN GAAP:			
Banco de Chile	42.8%	43.4%	44.1%
Banco Santander Chile	43.0	42.0	43.3
Banco de Crédito e Inversiones	48.2	46.1	50.2
Banco Corpbanca	52.9	52.1	50.5
BBVA Bilbao Vizcaya	58.4	65.4	53.2
Financial System average	**49.9%**	**49.5%**	**51.1%**

Source: SBIF

(1) Operating expenses divided by operating revenue.

(2) Includes operations of subsidiaries abroad.

Table of Contents

REGULATION AND SUPERVISION

General

In Chile, only banks may maintain current accounts for their customers conduct foreign trade operations and, together with non-banking financial institutions, accept time deposits. The principal authorities that regulate financial institutions in Chile are the SBIF and the Central Bank. Chilean banks are primarily subject to the General Banking Law and secondarily, to the extent not inconsistent with that law, the provisions of the Chilean Corporations Law governing public corporations, except for certain provisions that are expressly excluded.

The Chilean banking system dates back to 1925 and has been characterized by periods of substantial regulation and government intervention, as well as periods of deregulation. The most recent period of deregulation commenced in 1975 and culminated in the adoption of a series of amendments to the General Banking Law. In 2004, amendments to the General Banking Law granted additional powers to banks, including general underwriting powers for new issuances of certain debt and equity securities and the power to create subsidiaries to engage in activities related to banking, such as brokerage, investment advisory, mutual fund services, investment fund management, factoring, securitization products and financial leasing services. Prior to 2006, banks had the option of distributing less than 30% of their earnings as dividends in any given year, subject to approval of the holders of at least two-thirds of the bank s common stock. In 2006, however, the General Banking Law was amended to eliminate this alternative.

Following the Chilean banking crisis of 1982 and 1983, the SBIF assumed control of banks representing approximately 51% of the total loans in the banking system. As part of the assistance that the Chilean Government provided to Chilean banks, the Central Bank permitted banks to sell to it a certain portion of their non-performing loan portfolios at book value. Each bank then repurchased such loans at their economic value (which, in most cases, was substantially lower than the book value at which the Central Bank had acquired them), with the difference to be repaid to the Central Bank out of future income. Pursuant to Law No. 18,818, which was passed in 1989, this difference was converted into subordinated debt.

By the end of 2014, the Chilean Finance Ministry announced an overall review and various modifications to the Chilean Banking Act. As proposed, these changes are aimed at modernizing the Chilean banking framework by adopting the Basel III Guidelines, while appropriately regulating the complexity of the Chilean banking industry, reinforcing the independence of the SBIF through its corporate governance, and establishing a resolution system for banks. Accordingly, during 2015, the Chilean Ministry of Finance convened a working-group of financial experts to analyze and recommend modifications to the General Banking Act. This working-group released a final report in January 2016 recommending that modifications to the General Banking Act should be phased-in. Based on this report, the Ministry of Finance has announced that a bill reforming the Chilean Banking Act would be sent to the Chilean congress during 2016. See Item 3. Key Information Risk Factors Risks Relating to our Operations and the Chilean Banking Industry Restrictions imposed by banking regulations may constrain our operations and thereby adversely affect our financial condition and results.

The Central Bank

The Central Bank is an autonomous legal entity created under the framework of the Chilean Constitution. It is subject to its *Ley Orgánica Constitucional* (the Organic Constitutional Law) and the Chilean Constitution. To the extent not inconsistent with its Organic Constitutional

Law or the Chilean Constitution, the Central Bank is also subject to general laws applicable to the private sector, but is not subject to the laws applicable to the public sector. The Central Bank is directed and administered by a board of directors composed of five members designated by the President of Chile, subject to Senate approval.

The legal purpose of the Central Bank is to maintain the stability of the Chilean peso and the orderly functioning of Chile s internal and external payment systems. The Central Bank s powers include setting reserve requirements, regulating the amount of money and credit in circulation, and establishing regulations and guidelines regarding financial companies, foreign exchange (including the Formal Exchange Market) and bank deposit-taking activities.

Table of Contents

The Superintendency of Banks

Banks are supervised and controlled by the SBIF, a Chilean governmental agency. The SBIF authorizes the creation of new banks and has broad powers to interpret and enforce legal and regulatory requirements applicable to banks and financial institutions. Furthermore, in cases of noncompliance with its legal and regulatory requirements, the SBIF has the ability to impose sanctions. In extreme cases, it can appoint, with the prior approval of the board of directors of the Central Bank, a provisional administrator to manage a bank. It also has the mandate to approve any amendment to a bank s bylaws or any increase in its capital.

The SBIF examines all banks from time to time, usually at least once a year. Banks are required to submit unaudited financial statements to the SBIF on a monthly basis and to publish their unaudited financial statements at least four times a year in a newspaper of national circulation. A bank s financial statements as of December 31 of each year must be audited and submitted to the SBIF together with the opinion of its independent auditors. In addition, banks are required to provide extensive information regarding their operations at various periodic intervals to the SBIF.

Any person wishing to acquire, directly or indirectly, 10% or more of the share capital of a bank must obtain prior approval from the SBIF. Without such approval, the holder will not have the right to vote such shares. The SBIF may only refuse to grant its approval based on specific grounds set forth in the General Banking Law.

According to Article 35 bis of the General Banking Law, the prior authorization of the SBIF is required for each of the following:

- the merger of two or more banks;
- the acquisition of all or a substantial portion of a bank s assets and liabilities by another bank;
- the control by the same person, or controlling group, of two or more banks; or
- a substantial increase in the share ownership of a bank by a controlling shareholder of that bank.

Such prior authorization is required only when the acquiring bank or the resulting group of banks would own a market share in loans determined by the SBIF to be more than 15% of the Chilean banking system loans. The intended purchase, merger or expansion may be denied by the SBIF, or, if the acquiring bank or resulting group would own a market share in loans determined to be more than 20% of the Chilean banking system loans, the purchase, merger, or expansion may be conditioned on one or more of the following:

- that the bank or banks maintain Regulatory Capital above 8% and up to 14% of their risk-weighted assets;

- that the technical reserve established in Article 65 of the General Banking Law be applicable when deposits exceed 1.5 times the resulting bank s paid-in capital and reserves; or

- that the amount of interbanking loans be reduced to 20% of the resulting bank s Regulatory Capital.

If the acquiring bank or resulting group would own a market share in loans determined by the SBIF to be more than 15% but less than 20%, the authorization will be conditioned on the bank or banks maintaining Regulatory Capital not below 10% of their risk-weighted assets for a period set by the SBIF, which may not be less than one year. The calculation of risk-weighted assets is based on a five-category risk classification system applied to a bank s assets that is based on the Basel Committee recommendations.

Pursuant to the regulations of the SBIF, the following ownership disclosures are required:

- banks must disclose to the SBIF the identity of any person owning, directly or indirectly, 5% or more of its shares;

- holders of ADSs must disclose to the depositary the identity of beneficial owners of ADSs registered under such holders names;

Table of Contents

- the depositary must disclose to the bank the identity of beneficial owners of ADSs which the depositary has registered, and the bank, in turn, must disclose to the SBIF the identity of the beneficial owners of the ADSs representing 5% or more of such bank s shares; and

- bank shareholders who individually hold 10% or more of a bank s capital stock and who are controlling shareholders must periodically inform the SBIF of their financial condition.

The Superintendency of Securities and Insurance

Our subsidiaries Banchile Corredores de Bolsa S.A., Banchile Administradora General de Fondos S.A., Banchile Securitizadora S.A. and Banchile Corredores de Seguros Ltda. are supervised by the SVS. The SVS is a Chilean governmental agency that is empowered to interpret and enforce legal and regulatory requirements applicable to entities that are subject to securities and insurance regulation. The SVS also has the ability to impose sanctions over the supervised entities.

Limitations on Types of Activities

Chilean banks can only conduct those activities allowed by the General Banking Law, including loan placements, factoring and leasing activities, accepting deposits and, subject to certain limitations, making investments and performing financial services. Investments are restricted to real estate for the bank s own use, gold, foreign exchange and debt securities. Through subsidiaries, banks may also engage in other specific financial service activities such as securities brokerage services, mutual fund management, investment fund management, foreign capital fund management, financial advisory, securitization and factoring activities. Subject to specific limitations and the prior approval of the SBIF and the Central Bank, Chilean banks may own majority or non-controlling interests in foreign banks.

In March 2002, the Central Bank authorized banks to pay interest on current accounts and the SBIF published guidelines permitting banks to offer and charge fees for the use of a current account product that pays interest. Under these guidelines, these accounts may be subject to a minimum balance and different interest rates depending on average balances held in the account. The Central Bank has imposed additional caps on the interest rate that can be charged by banks with a solvency score of less than A.

In June 2007, the Chilean Government passed Law No. 20,190, which amended various aspects of Chile s capital markets regulatory framework, such as the General Banking Law, Securities, Insurance, Venture Capital and Tax law. Law No. 20,190 is aimed at improving the access to financing for start-up companies and small businesses in order to strengthen confidence in the stock market and to stimulate the development of the financial market in general. The General Banking Law was amended to achieve these goals by, among other things, revising regulations concerning demand deposits, increasing certain credit limits, and redefining the calculations to determine the proper amount for a bank s reserves. In addition, the General Banking Law was amended to allow local banks to engage in derivatives such as options, swaps and forward contracts, thereby eliminating prior existing legal impediments to those practices.

As a consequence of Chile s accession to the Organization for Economic Co-operation and Development, the Chilean congress introduced new corporate governance regulations in 2009. The Chilean Corporations Law and the Chilean Securities Markets Law were amended such that public companies with capital above 1,500,000 UF that have at least 12.5% of their voting shares owned by shareholders representing less than 10% of the voting shares are required to have at least one independent director in their board of directors. In order to assure the independence of this director, certain requirements were established to protect minority shareholders decisions. In addition, regulation was passed to expand the disclosure requirements of publicly-held companies and to hold members of boards of directors liable for not complying with such disclosure obligations.

Deposit Insurance

According to the General Banking Law, local or foreign currency denominated deposits at banks or financial companies are insured as described below.

Table of Contents

The Chilean Government guarantees up to 100% of the principal amount of the following deposits:

- deposits in current accounts;
- deposits in savings accounts of demand deposits;
- other demand deposits; and
- deposits in savings accounts with unlimited withdrawals.

In addition, the Chilean Government guarantees up to 90% of the principal amount of time deposits held by individuals in the Chilean banking system. This guarantee covers obligations with a maximum value of UF 108 per person (Ch$2,767,942 or U.S.$3,908 as of December 31, 2015).

Reserve Requirements

Deposits are subject to a reserve requirement of 9.0% for demand deposits and 3.6% for time deposits (with terms of less than one year). The Central Bank has statutory authority to increase these percentages to as much as 40% for demand deposits and as much as 20% for time deposits, to implement monetary policy.

In addition, Chilean banks must hold a certain amount of assets in cash or highly liquid instruments. This reserve requirement is equal to the amount by which the daily balance of deposits payable on demand, net of clearing, exceeds 2.5 times the amount of the bank s Regulatory Capital. Deposits payable on demand include the following:

- deposits in current accounts;
- other demand deposits or obligations payable on demand and incurred in the ordinary course of business;

- saving deposits that allow unconditional withdrawals that bear a stated maturity; and
- other deposits unconditionally payable immediately.

Chilean regulations also require that (i) gaps between assets and liabilities maturing within less than 30 days do not exceed a bank s Basic Capital and (ii) gaps between assets and liabilities maturing within less than 90 days do not exceed twice a bank s Basic Capital. Behavioral assumptions of assets and liabilities maturities are accepted if approved by the SBIF.

As of December 31, 2015 Banco de Chile fully complied with these reserve requirements.

Minimum Capital

Under the General Banking Law, a bank must have a minimum paid in capital and reserves of UF 800,000 (Ch$20,503 million or U.S.$28.9 million as of December 31, 2015). However, a bank may begin its operations with 50% of such amount, provided that it has a Regulatory Capital ratio (defined as Regulatory Capital as a percentage of risk weighted assets) of not less than 12%. When such a bank s paid in capital reaches UF 600,000 (Ch$15,377 million or U.S.$21.7 million as of December 31, 2015), the Regulatory Capital ratio requirement is reduced to 10%.

As of December 31, 2015 Banco de Chile fully complied with such minimum capital requirements.

Capital Adequacy Requirements

According to the General Banking Law, each bank should have Regulatory Capital of at least 8% of its risk-weighted assets, net of required allowances. This percentage may be increased by the regulators according to what has been previously stated.

Banks should also have a Basic Capital of at least 3% of their total assets, net of required allowances.

Table of Contents

The terms Regulatory Capital and Basic Capital are defined under Presentation of Financial Information at the beginning of this annual report.

As of December 31, 2015 Banco de Chile fully complied with such capital adequacy requirements.

Market Risk Regulations

In September 2005, the SBIF introduced new regulations for measuring market risks (e.g., price and liquidity risks). This entity introduced standardized methodologies based on Basel Market Risk Measurement models for measuring and reporting price risks. These methodologies allow local banks to determine interest rate, foreign exchange (FX) and options risks (for FX and interest rate transactions) taken in both their trading and accrual books. Additionally, this entity provided funding liquidity risk measurements standards which included the alternative to model the maturity tenor of some balance sheet items following behavioral assumptions.

The trading book is composed of portfolios of debt and equity instruments that have a liquid secondary market and therefore their valuation at market prices and the corresponding profit and losses impact is representative of market conditions. In addition, all derivative transactions and the FX mismatches are also part of the trading book. The accrual book comprises all of the asset and liability balance sheet items that are not part of the trading book.

The regulation provides that 8% of the sum of the risk-weighted assets and the price risk of the trading book may not be higher than Regulatory Capital. In light of the merger between Banco de Chile and Banco A. Edwards in 2002, the SBIF raised the applicable percentage for us from 8% to 10%. As of December 31, 2015, the price risk of our trading book totaled Ch$98,943 million.

The following table shows our regulatory risk availability, computed as the difference between the risk and our Regulatory Capital, as of December 31, 2015:

	As of December 31, 2015 **(in millions of Ch$, except percentage)**
(a) 10% risk-weighted assets	2,747,664
(b) Trading price risk	98,943
(c = a + b) Total risk	2,846,607
(d) Regulatory Capital	3,457,523
(e = d c) Risk Availability	610,916
(f = c/d) Risk used as a Percentage of Regulatory Capital	82.3%

Interest rate risk generated by the accrual book is measured against a self-imposed limit equal to the lesser of 12-month rolling net revenues and our Basic Capital.

The guidelines for measuring liquidity risk are mainly focused on constructing an expected cash flow analysis for the following 30 and 90 days, broken down by currency. Net outflows may not exceed the amount of our Basic Capital for the following 30 days or two times that amount for the following 90 days. Subject to approval of the SBIF, the cash flow analysis may include behavioral run-off assumptions for some specific liability balance sheets items (demand deposits, time deposits, etc.) and behavioral roll-over assumptions for some asset items of the consolidated statement of financial position data (loans, etc.).

In June 2006, the SBIF introduced new regulations relating to (i) the valuation process of debt instruments and (ii) the measurement and reporting of credit risk generated by derivative transactions.

Prior to June 2006, the SBIF allowed banks to classify debt instruments for accounting and business purposes as either Trading or Held-to-Maturity only. Starting in June 2006, a new alternative classification was added (Available-for-Sale). No changes to the classification system have occurred since June 2006.

Credit risk for derivative transactions, for regulatory purposes, must be measured and reported as:

Derivatives Credit risk = Current Mark-to-Market (if positive) + Credit Risk Factor (%) * Notional Amount

Table of Contents

The Current Mark-to-Market (CMTM) of the transaction, if positive, reflects the amount of money owed by the counterparty today, e.g. corresponding to the amount the counterparty would pay us if the transaction were unwound today. As we are interested in measuring the maximum amount of money that the customer would owe us within the life of the transaction, the maximum potential future value of the transaction is added to the CMTM. This potential value is measured as the Credit Risk Factor multiplied by the Notional Amount. Hence, the Credit Risk Factor reflects the potential value that the transaction may take in favor of the bank (under some confidence level) within its remaining tenor. The regulator determines the Credit Risk Factor by considering market factors (three categories: interest rates, FX rates or equity prices) involved in the respective transactions and the remaining tenor. In addition, banks usually develop their own Credit Risk Factors models to assess credit risk not only under regulatory guidelines. Netting and credit mitigation schemes, such as recouping, early termination, margins, etc. have been allowed by regulators so that banks can better manage their credit risk.

Lending Limits

Under the General Banking Law, Chilean banks are subject to certain lending limits, including the following material limits:

- A bank may not extend to any entity or individual, directly or indirectly, unsecured credit in an amount that exceeds 10% of the bank s Regulatory Capital, or in an amount that exceeds 30% of its Regulatory Capital if the excess over 10% is secured by certain assets with a value equal to or higher than such excess.

- In the case of financing infrastructure projects built through the concession mechanism, the 10% ceiling for unsecured credits is raised to 15% if secured by a pledge over the concession, or if granted by two or more banks or financial companies which have executed a credit agreement with the builder or holder of the concession.

- A bank may not extend loans to another financial institution subject to the General Banking Law in an aggregate amount exceeding 30% of its Regulatory Capital.

- A bank may not extend to any individual or entity that is, directly or indirectly, related to the ownership or management of the bank, credit under more favorable terms with respect to repayment conditions, interest rates or collateral than those granted to third parties in similar transactions. The aggregate amount of such credits granted to related persons may not exceed 5% of the bank s Regulatory Capital. The 5% unsecured ceiling is raised to 25% of the bank s Regulatory Capital if the excess over 5% is secured by certain assets with a value equal to or higher than such excess. In any case, the aggregate amount of these credits granted by the bank may not exceed the bank s Regulatory Capital.

- A bank may not directly or indirectly grant a loan, the purpose of which is to allow an individual or entity to acquire shares of the lender bank.

- A bank may not lend, directly or indirectly, to a director or any other person who has the power to act on behalf of the bank.

- A bank may not grant loans to related parties (including holders of more than 1% of its shares) on more favorable terms than those generally offered to non-related parties. Loans granted to related parties are subject to the limitations described in the first bullet point above. The aggregate amount of loans to related parties may not exceed a bank s Regulatory Capital.

As of December 31, 2015, Banco de Chile fully complied with the lending limits established by the General Banking Law.

Classification of Banks

The SBIF regularly examines and evaluates each bank s solvency and credit management process, including its compliance with loan classification guidelines. On the basis of this evaluation, it classifies banks into various categories.

Table of Contents

Solvency and Management

In accordance with amended regulations of the SBIF effective as of January 1, 2004, banks are classified into categories I through V based upon their solvency and management ratings. This classification is confidential.

Category I:	This category is reserved for financial institutions that have been rated level A in terms of solvency and management.
Category II:	This category is reserved for financial institutions that have been rated (i) level A in terms of solvency and level B in terms of management, (ii) level B in terms of solvency and level A in terms of management, or (iii) level B in terms of solvency and level B in terms of management.
Category III:	This category is reserved for financial institutions that have been rated (i) level B in terms of solvency and level B in terms of management for two or more consecutive review periods, (ii) level A in terms of solvency and level C in terms of management, or (iii) level B in terms of solvency and level C in terms of management.
Category IV:	This category is reserved for financial institutions that are rated level A or B in terms of solvency and have been rated level C in terms of management for two or more consecutive review periods.
Category V:	This category is reserved for financial institutions that have been rated level C in terms of solvency, irrespective of their rating level of management.

A bank s solvency rating is determined by its Regulatory Capital (after deducting accumulated losses during the financial year) to risk-weighted assets ratio. This ratio is equal to or greater than 10% for level A banks, equal to or greater than 8% and less than 10% for level B banks and less than 8% for level C banks.

With respect to a bank s management rating, level A banks are those that are not rated as level B or C. Level B banks display some weakness in internal controls, information systems, response to risk, private risk rating or ability to manage contingency scenarios. Level C banks display significant deficiencies in internal controls, information systems, response to risk, private risk rating or ability to manage contingency scenarios.

Obligations Denominated in Foreign Currencies

Foreign currency-denominated obligations of Chilean banks are subject to two requirements:

- a reserve requirement of 9% for demand deposits and 3.6% for time deposits (see Reserve Requirements); and

- net foreign currency outflows may not exceed the amount of the Basic Capital for the following 30 days or two times that amount for the following 90 days.

Capital Markets

Under the General Banking Law, banks in Chile may purchase, sell, place, underwrite and act as paying agents with respect to certain debt securities. Likewise, banks in Chile may place and underwrite certain equity securities. Bank subsidiaries may also engage in debt placement and dealing, equity issuance advice and securities brokerage, as well as mutual fund and investment fund administration, factoring, investment advisory services and merger and acquisition services. The SBIF generally regulates these subsidiaries. However, the SVS regulates some of these subsidiaries. The SVS is the regulator of the Chilean securities market and publicly-held corporations.

Legal Provisions Regarding Banking Institutions with Economic Difficulties

The General Banking Law provides that if specified adverse circumstances exist at any bank, its board of directors must correct the situation within 30 days from the date of receipt of the relevant financial statements. If the board of directors is unable to do so, it must call an extraordinary shareholders meeting to increase the capital of the

Table of Contents

bank by the amount necessary to return the bank to financial stability. If the shareholders reject the capital increase, or if it is not effected within the 30-day period and in the manner agreed to at the meeting, or if the SBIF does not approve the board of directors proposal, the bank will be barred from increasing its loan portfolio beyond that stated in the financial statements presented to the board of directors and from making any further investments in any instrument other than instruments issued by the Central Bank. In such a case, or in the event that a bank is unable to make timely payment in respect of its obligations, or if a bank is under provisional administration of the SBIF, the General Banking Law provides that the bank may receive a two-year term loan from another bank. The terms and conditions of such a loan must be approved by the board of directors of both banks, as well as by the SBIF, but need not be submitted to the borrowing bank s shareholders for their approval. A creditor bank may not grant such interbank loans to an insolvent bank in an amount exceeding 25% of the creditor bank s Regulatory Capital. The board of directors of a bank that is unable to make timely payment of its obligations must present a reorganization plan to its creditors in order to capitalize the credits, extend their respective terms, forgive debts or take other measures for the payment of the debts. If the board of directors of a bank submits a reorganization plan to its creditors and such arrangement is approved, all subordinated debt issued by the bank, whether or not matured, will be converted by operation of law into common stock in the amount required for the ratio of Regulatory Capital to risk-weighted assets to be no lower than 12%. If a bank fails to pay an obligation, it must notify the SBIF, which shall determine if the bank is solvent.

Dissolution and Liquidation of Banks

The SBIF may establish that a bank should be liquidated for the benefit of its depositors or other creditors when the bank does not have the necessary solvency to continue its operations. In which case, the SBIF must revoke the bank s authorization to exist and order its mandatory liquidation, subject to the agreement of the Central Bank. The SBIF must also revoke the bank s authorization if the reorganization plan of the bank has been rejected twice. The resolution by the SBIF must state the reason for ordering the liquidation and must name a liquidator, unless the SBIF assumes this responsibility. When a liquidation is declared, all current accounts, other demand deposits received in the ordinary course of business, other deposits unconditionally payable immediately or that have a maturity of no more than 30 days, and any other deposits and receipts payable within 10 days of its maturity date, are required to be paid by using the bank s existing funds, its deposits with the Central Bank, or its investments in instruments that represent its reserves. If these funds are insufficient to pay these obligations, the liquidator may seize the bank s remaining assets, as needed. If necessary, and in specified circumstances, the Central Bank will lend the bank the funds necessary to pay these obligations. Any such loans are preferential to any claims of other creditors of the liquidated bank.

Investments in Foreign Securities

Under current Chilean banking regulations, banks in Chile may grant loans to foreign individuals and entities and invest in certain foreign currency securities. Chilean banks may only invest in equity securities of foreign banks and certain other foreign companies which may be affiliates of the bank or which would support the bank s business if such companies were incorporated in Chile. Banks in Chile may also invest in debt securities traded in formal secondary markets. Such debt securities shall qualify as (i) securities issued or guaranteed by foreign sovereign states or their central banks or other foreign or international financial entities, and (ii) bonds issued by foreign companies. Such foreign currency securities must have a minimum rating as indicated in the table below and, if the investments in these securities and the loans referred to above exceed 70% of the Regulatory Capital of the bank, an allowance for 100% of the excess shall be established:

Rating Agency	Short Term	Long Term
Moody s Investor Service (Moody s)	P2	Baa3
Standard and Poor s (S&P)	A2	BBB
Fitch Rating Service (Fitch)	F2	BBB
Dominion Bond Rating Service (DBRS)	R2	BBB(low)

Table of Contents

A Chilean bank may invest in securities having a minimum rating as follows, provided that if the total amount of these investments and the loans referred to above exceed 20% (or 30% in certain cases) of the Regulatory Capital of the bank, an allowance of 100% of the excess shall be established by the bank:

Rating Agency	Short Term	Long Term
Moody s Investor Service (Moody s)	P2	Ba3
Standard and Poor s (S&P)	A2	BB
Fitch Rating Service (Fitch)	F2	BB
Dominion Bond Rating Service (DBRS)	R2	BBB(low)

However, a Chilean bank may invest in securities up to an additional amount of 70% of the bank s Regulatory Capital without having to establish an additional allowance, if such securities have a minimum rating of:

Rating Agency	Short Term	Long Term
Moody s Investor Service (Moody s)	P1	Aa3
Standard and Poor s (S&P)	A1+	AA
Fitch Rating Service (Fitch)	F1+	AA
Dominion Bond Rating Service (DBRS)	R1(high)	AA(low)

Subject to specific conditions, a bank may grant loans in U.S. dollars to subsidiaries or branches of Chilean companies located abroad, to companies listed on foreign stock exchanges located in countries with an international risk rating no less than BB- or its equivalent and, in general, to individuals and entities residing or domiciled abroad.

Procedures for the Management of Information of Interest to the Market

In order to ensure compliance with the provisions of the *Ley de Mercado de Valores* No. 18,045 (the Chilean Securities Market Law) and regulations, issued by the SVS and the SBIF, our board of directors approved, on January 29, 2010, the Manual for the Management of Information of Interest to the Market (the Manual).

The Manual s main objective is to provide timely disclosure of our policies and internal regulations in connection with the disclosure of information to the public and the systems that have been implemented by us.

In addition, these policies and internal regulations establish codes of conduct that our employees and other persons with access to certain information must comply with in order to protect information related to us.

The Manual is available to the general public on our web page at www.bancochile.cl.

Prevention of Money Laundering and the Financing of Terrorism

On December, 18, 2003 Law 19,913 created the Financial Analysis Unit and enacted new rules regarding money laundering. On March 6, 2006, the SBIF issued regulations governing the requirements applicable to banks with respect to prevention of money laundering and terrorism financing. The regulations, as amended, are aimed at incorporating international anti-money laundering (AML) and terrorism financing laws to the Chilean banking industry. Pursuant to these regulations, the SBIF requires that banks implement an Anti-Money Laundering and Terrorism Financing system based mainly on the know your customer and source of wealth concepts. Moreover, these policies and procedures must be approved by the board of directors of each bank and must take into account the volume and complexity of its operations and other related parties.

Based on these requirements, a Customer Identification Program (as part of the Anti-Money Laundering and Terrorism Financing system) is needed to enable a bank to establish the reasonable belief that it knows the true identity of its customers. In general, the program includes controls and procedures to:

- properly identifying customers, including their background, source and amount of funds, country of origin and other risk factors;

Table of Contents

- identifying and monitoring what the SBIF has defined as politically exposed persons (PEPs) both within Chile and abroad; and

- ensuring a safe and suitable account opening process, with different documentation requirements needed for different types of accounts and products.

The Anti-Money Laundering and Terrorism Financing system required by local regulations must also include the following components:

- AML policies and procedures aimed at preventing a bank from being used as an intermediary to carry out money laundering operations;

- appointment of a compliance officer on a senior management level who is responsible for coordinating and monitoring day-to-day AML compliance;

- establishment of an AML Committee for the purposes of planning and coordinating compliance with AML policies and procedures;

- use of software tools to detect, monitor and report unusual operations related to transactions made by customers on different products;

- implementation of personnel selection policies and a training program, in order to prevent money laundering;

- establishment of a Code of Conduct in order to, among other things, guide employee behavior and prevent possible conflicts of interest; and

- independent testing by the compliance department, which must be conducted by a bank s internal audit department.

On December 1, 2015, the SBIF introduced a new set of rules regarding the PEPs. These new sets of rules relate to the bank´s obligation to keep specific PEPs policy and procedures in place to grant certain loans to PEPs, as well as to carry out controls procedures associated with service providers when PEPs are involved therewith.

Consumer-Oriented Regulation

On December 5, 2011, Law No. 20,555 was published in the Diario Oficial, amending the Chilean Consumer Protection Law. The most significant changes enacted by Law No. 20,555 were:

- new agreements entered into by banks and consumer must fully disclose the costs that the consumer assumes, as well as the periodicity, and the mechanisms to modify them. In addition, new agreements must fully disclose all terms, events of default, events of early termination, and automatic payments;

- banks must inform consumers periodically as to the complete, detailed cost of the banking product, as well as of the cost of the services rendered. The information must include the cost that the consumer will assume if he terminates the agreement before the end of its term;

- before rendering a service or delivering a product, banks must give the consumer a quote, which must include costs, rates, and conditions;

- if the consumer so wishes banks must terminate the rendering of a service;

- banks must inform guarantors as to their rights and obligations before they assume the role of guarantor;

- irrevocable mandates and mandates in blank are prohibited by the law;

- when consumers execute standard form contracts, banks must explain, in writing, the main provisions of the agreement; and

Table of Contents

• banks may only modify fees and costs of services and banking products if the mechanisms to modify them are based on objective and verifiable factors previously agreed to in the agreement. In addition, the cost of banking services and products may not be modified without the consent of the consumer.

This amendment became effective on March 5, 2012; however, with regards to banking product agreements entered into before such date, the amendment does not affect the substantive rights acquired by the parties in those agreements. This amendment created a new legal framework, Sernac Financiero , whose purpose is to monitor and oversee the relationship between customers and financial institutions, with a particular focus on lending activities and contracts.

In July 2012, the government enacted the regulations that implement Law No. 20,555, which address mortgage loans, consumer loans, credit cards, the *Sello Sernac* (Sernac Seal), and other financial products and services. The new regulations govern, among other matters, the form and content of communications that financial institutions must periodically provide to their customers. Likewise, the new regulations implement the so-called *Hoja Resumen* (Summary Sheet)), which must precede the contracts that consumers enter into with financial institutions. The Summary Sheet is intended to provide a clear and understandable summary of the terms and conditions that govern financial products and services.

The Sernac Seal is a new concept introduced by Law No. 20,555 and consists of a non-mandatory certification granted by the Chilean government agency in charge of consumer protection (*Servicio Nacional del Consumidor,* Sernac), by which that agency confirms that the contracts used by a financial institution when providing products and services comply with the Consumer Protection Act. In this regard, the new regulation establishes the specific requirements for financial institutions to obtain such certification as well as the events that may lead to its termination. Among the requirements to obtain the certification, financial institutions must provide a consumer service and adopt a dispute resolution procedure as defined by Law No. 20,555 and its regulation.

All of these regulations are already implemented by Banco de Chile, except Sernac Seal, which is not mandatory.

On April 30, 2013, the SBIF revoked several regulations that governed in general terms the collection of fees and expenses, the possibility of collecting them in certain cases, changing the fees to be charged to customers, and their exclusion from the calculation of the effective interest rate. The SBIF said that this revocation occurred because, based on the amendments incorporated by Law No. 20,555, it lacks authority to continue regulating these matters.

On December 19, 2013, the Ministry of Economy published a regulation for the manner and conditions under which consumers validly express their consent to financial contracts. Additionally, this regulation established the effects of a customer s rejection or non-acceptance of an amendment proposed by the bank or other supplier. However, this regulation was revoked on March 26, 2014.

On March 17, 2015 the SBIF released Circular No. 3,578, which provides a new set of minimum standards for the availability of banks ATM networks. These rules impose minimum levels of uptime for ATMs belonging to each institution in order to ensure desired levels of performance and service quality. Also, the SBIF has urged local banks to include the management of their ATM networks within their service policies and has required that they report relevant information periodically.

New Insurance Brokerage Regulations

On December 1, 2013, a new regulation affecting all insurance brokerage businesses in Chile became effective. This regulation is a result of Law No. 20,667 that was enacted on May 9, 2013 and Circular No. 2114 issued by the SVS on July 26, 2013. The new regulation establishes that, in the case of early termination of an insurance policy paid for in advance (for example, because of the early repayment of the related loan), all unearned premiums must be refunded to the customer by the company that issued the policy. This refund obligation includes both the unearned premiums and commissions relating to the remaining policy period, such as brokerage fees (e.g., the fees of our subsidiary Banchile Corredores de Seguros Limitada) and any other commissions. The premiums and commissions subject to refund will be calculated in proportion to the unlapsed period. This refund

Table of Contents

obligation applies with respect to insurance policies issued after this new regulation became effective. Prior to this regulation, unearned premiums were refunded only if the early termination took place within the later of forty-five days after the issuance of the insurance policy, or one-tenth of the total term of the insurance policy (from the date of issuance). These refund obligations did not have a material effect on our results of operations in 2014 and 2015.

New Maximum Legal Interest Rates

On December 13, 2013, a new law Law No. 20,715 regulating maximum interest rates became effective upon publication in the Chilean Official Gazette. This legislation affects all Chilean businesses that charge interests (including all banks, department stores and any other commerce or financial provider) on loans up to UF 200 (approximately U.S.$7,240), including installment loans, credit cards and credit lines related loans, as well as overdue loans. This regulation establishes among other things, a new methodology for calculating the maximum legal interest rate for loans not indexed to inflation longer than a 90-day term, which results in a reduction of the maximum legal interest rate applicable to such debtors. This law did not have a material effect on our results of operations in 2014 and 2015.

Credit Risk Provisioning

On December 18, 2013, the SBIF published for comments a set of amendments to the regulations on allowances for loan losses and credit risk matters. A revised and final version of these guidelines was published on December 30, 2014 by the SBIF (Circular No. 3,573).

The final version of the guidelines established a standardized method for calculating provisions for loan losses for residential mortgage loans, including the effects of past-due behavior and loan-to-value ratios, while providing new and more precise definitions for impaired loans and new requirements to remove loans from such portfolio. In addition, this set of rules addressed the possibility of implementing standardized credit risk provisioning models for consumer and commercial loan portfolios, evaluated on a grouped basis, in the future. However, the circular clarified that standardized methods for evaluating commercial and consumer loans on a group basis, as well as the requirements for banks internally developed models, would be discussed and analyzed in 2015.

Lastly, the new guidelines also introduced changes for the treatment of factoring loans from a provisioning point of view, by taking into account the credit risk associated with the billed company.

On June 22, 2015, the SBIF published a set of amendments to existing rules on loan provisioning and treatment of impaired loans to explain and ensure the right application of the rules released on December 30, 2014, which went into effect on January 1, 2016.

On December 24, 2015, the SBIF published new guidelines (Circular No. 3,598) regulating the use of internally-developed credit risk models by Chilean banks. These guidelines enclosed in two appendices that complement the existing credit risk provisioning rules establish a framework and requirements that all Chilean banks must comply to shift from standardized credit risk provisioning models to internally-developed credit risk models. The new framework establishes general and specific requirements. Regarding general requirements, the SBIF states that banks should: (i) have independent and specialized areas in charge of developing, validating and monitoring internally-developed methodologies, (ii) have adequate control procedures for technological platforms and systems to ensure stability and reliability of processes supporting internally-developed methodologies, (iii) maintain backup of information, variables, validation and monitoring activities associated with modeling internally-developed methodologies to enable counterparties to replicate the developed methodologies, if necessary and (iv) generate detailed technical documentation of analysis and decisions made in the process of building internal methodologies. In addition, the SBIF requires specific requirements for setting-up internally-developed methodologies, which will depend on the type of method chosen by each bank, as disclosed in Circular No. 3,598.

It is important to mention that the implementation of standardized credit risk provisioning models would only have an effect, if any, on our results of operations or financial condition prepared under Chilean GAAP, which differ to some extent from IFRS as issued by the IASB. The adoption of these guidelines will not have any impact on our results of operations or financial condition under IFRS.

Table of Contents

New Rules on Liquidity Standards

In 2014, the Chilean Central Bank released a proposal for new liquidity standards for local banks based on Basel III guidelines. After receiving comments, the Central Bank published a final version in January 2015. The SBIF is the institution empowered to put these guidelines into practice and monitor them on an ongoing basis. Accordingly, in February 2015, the SBIF introduced a draft of these rules for comment and discussion. On July 31, 2015, the SBIF released a new set of liquidity requirements for banks (Circular No. 3,585) establishing reporting requirements for local banks with respect to management and measurement of each bank s liquidity position. The guidelines require local banks to provide certain financial information to regulators as well as the general public, including but not limited to disclosures regarding liquid assets, liabilities, maturity dates for certain investments and concentration of financial instruments by type of liability and counterparty. Also, aligned with Basel III, these new rules require banks to report and monitor liquidity ratios such as Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR).

The first stage of these requirements is intended to improve the information in quantity and quality about the actual status of banks without imposing specific limits, except liquidity mismatch limits for 30-day and 90-days periods. Under this limit, which existed before the new guidelines, mismatches between modeled cash inflows and cash outflows over 30-day and 90-day periods must not exceed one time and two times the amount of Tier 1 capital held by any bank, respectively.

Based on the new guidelines, in March 2016, the Chilean regulator began to require banks to issue two reports, namely C47 and C48. The C47 report focuses on liabilities analysis and the C48 report focuses on LCR and NSFR ratios disclosures. So far, however, the regulator has not established any thresholds related to these reports and there is no certainty as to when or how these limits will be imposed. Nevertheless, regulatory limits are expected to be defined and implemented by 2017. Accordingly, this new rules will not affect our operations and results for the year ended December 31, 2016.

Amendments to the Reform that Modified the Chilean Tax System

In September 2014, the Chilean congress approved a law reforming the Chilean tax system. This tax reform (Law No. 20,780) gradually increases the first category tax or corporate tax rate between 2014 and 2018 while establishing two alternative tax regimes from 2017 onwards: (i) the Semi-Integrated Regime and (ii) the Attribution Regime. The tax reform increases the statutory corporate tax rate from 20.0% in 2013 to 21.0% in 2014, 22.5% in 2015 and 24.0% in 2016. From 2017 onwards, the statutory corporate tax rate will depend on the tax regime chosen by the owners of the taxpayer (the company). If the Semi-Integrated Regime is selected, the company will be subject to a statutory corporate tax rate of 25.5% in 2017 and 27.0% from 2018 onwards. If, instead, the Attribution Regime is selected, the company will be subject to a statutory corporate tax rate of 25.0% from 2017 onwards.

Notwithstanding the above, in February 2016, a new tax law was enacted (Law No. 20,899), which simplified the previously mentioned reform by limiting the possibility of choosing between the two alternative tax regimes. In fact, according to this new amendment to the Chilean tax system, publicly-traded companies will only be subject to Semi-Integrated Regime. Consequently, the statutory corporate tax rate for Banco de Chile will be 25.5% in 2017 and 27.0% from 2018 onwards.

The tax reform also affects the taxes levied on dividends received by investors that hold shares of common stock or ADS from 2017 onwards. Under the Semi-Integrated Regime, holders of shares or ADS will pay taxes on the dividends effectively received from the company (withholding tax of 35% for foreign investors and a general regime tax for local investors). Foreign investors from Double Taxation Avoidance Treaty (DTAT) countries will be able to use 100% of the corporate tax paid by the company as a tax credit. However, local investors and holders from non-DTAT countries will be permitted to use only 65% of the corporate tax paid by the company as a tax credit.

In addition, Law No. 20,899 permits investors to use 100% of the corporate tax paid by the company as a tax credit, if investors reside in countries that used to be DTAT countries before January 1, 2017, even though the DTAT has expired. However, this special treatment will only apply until December 31, 2019.

Table of Contents

Based on the above, the effective tax rate paid by local (individual) investors or foreign holders could increase up to 44.5%.

Lastly, under the new amendments to the Chilean tax system, stock dividends (distributions on fully paid-in shares) are tax exempt when distributed. Furthermore, the new tax income law introduces certain changes to the treatment of capital gains associated with the sale of shares received as stock dividends.

Although these reforms are currently in place, some rulings associated with their implementation are still under review by the Chilean IRS. Accordingly, changes to or statements regarding the interpretation of new taxation guidelines could be introduced by the Chilean IRS in the future.

For more information, see Item 10. Additional Information Taxation Chilean Tax Considerations.

New Law Regulating the Release of Mortgages and Pledges without Conveyance (Law No. 20,855)

Law No. 20,855 was enacted on September 25, 2015 and went into effect on January 23, 2016. This law seeks to regulate the release of mortgages used as collateral for loans granted to individuals or SMEs customers. This regulation supplements the Consumer Protection Act (Law No. 19,496) or the SERNAC Act. In addition, Law No. 20,855 regulates the release of *prendas sin desplazamiento* (pledges without conveyance) used as collateral for loans granted to individuals, SMEs or any type of company as defined by Law No. 20,190.

For loans paid-off after January 23, 2016, Law No. 20,855 establishes requirements and time limits for banks to release mortgages (within 45 days) and inform customers of such release (within 30 days). On the other hand, for loans paid-off before January 23, 2016, Law No. 20,855 requires banks to release the mortgages within a 3-year period for loans paid-off up to six years before this law becomes effective and to release the pledges without conveyance within an 18-month period for loans paid-off up to four years before this law becomes effective. Notwithstanding the aforementioned, for loans paid-off before January 23, 2016, customers may also require the release of mortgages or pledges without conveyance, which should be executed by the bank within 45 days. Also, the bank should provide the customer with this information within a 30-day period. Costs associated with this process will be incurred by banks.

In addition, for monitoring purposes, the bank must inform the SERNAC, on a semi-annual basis, about: (i) the criteria used to comply with Law No. 20,855, (ii) the progress in implementing the proposed changes, (iii) the efforts taken to release mortgages used as collateral on already paid-off loans and (iv) the advertising used to inform customers about their rights regarding the release of mortgages once the related loan has been paid-off.

Bankruptcy Law

On October 10, 2014, a new Bankruptcy Law that aims to promote agreements and avoid liquidations became effective. Among the main changes introduced by this law is Article 57, which is intended to protect debtors and provides that, during a 30-day term beginning on the date of the appointment of observers:

(i) the creditors of a debtor may not request its liquidation;

(ii) no proceeding seeking the issuance of a warrant of attachment, execution or similar process may be initiated against a debtor;

(iii) no proceeding seeking the restitution of leased assets may be initiated against a debtor;

(iv) all proceedings referred to in (ii) and (iii) directly above will be suspended, as well as the term of the statute of limitations;

(v) all the agreements entered into by a debtor will remain valid and effective and its payments terms and conditions will remain in force. Consequently, these agreements may not be early terminated without the consent of the debtor nor be enforced, even if the commencement of a reorganization proceeding under the Bankruptcy Law constitutes an event of default under such agreement. Thus, any guarantees granted to secure the obligations of the debtor may not be enforced; and

Table of Contents

(vi) if a debtor forms part of a public registry as a contractor or service provider, and it is in compliance with its obligations with the relevant principal, it cannot be excluded from such public registry and may not be prohibited from participating in any relevant bidding process.

Reporting of Operational Incidents

On March 23, 2015, the SBIF issued a new regulation on the reporting of operational incidents (Circular No. 3,579). According to this regulation, banks must report immediately to the SBIF certain types of significant operational incidents in order to keep the regulator properly informed. For purposes of the regulation, an operational incident is deemed significant if the event affects the business continuity, information security or reputation of the bank.

Volcker Rule

The Volcker Rule became effective during 2015 in the United States as part of the Dodd Frank Wall Street Reform and Consumer Protection Act. Among other topics, the Volcker Rule limits proprietary trading and positions taken by banks in covered funds by establishing specific conditions for carrying out these activities. Also, this regulation establishes specific corporate governance measures for conducting these businesses to avoid conflict of interest and high-risk trading strategies by banks.

Section No. 619 of the Volcker Rule is applicable to Citigroup. Since we and our subsidiaries are considered as Citigroup s subsidiaries, during 2015, we comprehensively revised our internal policies and procedures to establish, maintain, enforce, test and modify our Volcker Rule Compliance Program.

ORGANIZATIONAL STRUCTURE

The following diagram presents our current corporate structure, including our subsidiaries and their respective direct ownership interests, as of April 25, 2016:

With the exception of Banchile Trade Services Limited, which was incorporated in Hong Kong, all of the subsidiaries presented above have their jurisdiction of incorporation in the Republic of Chile. See Business Overview Principal Business Activities Operations through Subsidiaries for more information on our subsidiaries.

In 2014, we began a voluntary dissolution process for Banchile Trade Services Limited in Hong Kong, which is still in progress. We expect to complete this process during the second half of 2016.

Table of Contents

PROPERTY, PLANT AND EQUIPMENT

We are based in Chile and own the building located at Paseo Ahumada 251, Santiago, Chile, that is approximately 77,500 square meters and serves as the headquarters for the Bank and its subsidiaries. In addition, we own both office and parking space in four other buildings located at Huerfanos 740, Agustinas 733, Andrés Bello 2687 and El Bosque 500, Santiago, Chile where the remainder of our executive offices are located. The total area we own in these buildings is equivalent to approximately 46,300 square meters.

As of December 31, 2015, we owned the properties on which 171 of our full-service branches and other points of sale are located (approximately 111,200 square meters of office space). Also, as of December 31, 2015, we had leased office space for 234 of our full-service branches with office space of approximately 65,220 square meters. Lastly, the 14 remaining branches and other points of sale were managed through a combined model by which part of the branch surface is owned and the remaining branch surface is under a leasing contract. Also, in some cases, we entered into special partnership agreements with the property s owners.

We also own properties throughout Chile for back office and administrative operations, as well as for storage of documents and other purposes. We believe that our facilities are adequate for our present needs and suitable for their intended purposes.

As of December 31, 2015, we also owned approximately 134,250 square meters in mainly recreational physical facilities in Chile, which we use to assist our employees in maintaining a healthy work and life balance and which we use for incentive and integration activities.

Our 2016 budget for infrastructure expenditures amounts to approximately Ch$25,459 million. This is intended to finance disbursements associated with renovation and restoration of our main buildings (26.8%), implementation and relocation of commercial branches (47.2%), general maintenance for buildings and distribution network (13.4%), among other disbursements.

Table of Contents

SELECTED STATISTICAL INFORMATION

The following information is included for analytical purposes and should be read in conjunction with our audited consolidated financial statements as of and for the year ended December 31, 2015 appearing elsewhere in this annual report and Item 5. Operating and Financial Review and Prospects.

Average Balance Sheets, Interest Earned on Interest Earning Assets and Interest Paid on Interest Bearing Liabilities

The average balances for interest-earning assets and interest-bearing liabilities, including interest and readjustments received and paid, were calculated on the basis of our daily balances and on the basis of monthly balances for our subsidiaries. These average balances are presented in Chilean pesos (Ch$), in UF and in foreign currencies (principally the U.S. dollar). The UF is an inflation-indexed Chilean monetary unit of account with a value in Chilean pesos which is linked to, and which is adjusted daily to reflect changes in, the CPI of the Chilean National Institute of Statistics.

The nominal interest rate has been calculated by dividing the amount of interest and principal readjustment gain or loss during the period by the related average balance, both amounts expressed in Chilean pesos.

Foreign exchange gains or losses on foreign currency-denominated assets and liabilities have not been included in interest revenue or expense. Interest received on past-due loans includes interest on such loans from the original maturity date. For our impaired portfolio and high risk loans, we apply a conservative approach of discontinuing accrual-basis recognition of interest revenue in the income statement and they are only recorded once received.

Included in cash and due from banks are current accounts maintained in the Central Bank and overseas banks. Such assets have a distorting effect on the average interest rate earned on total interest earning assets because of balances maintained in:

- the Central Bank, only the portion that is legally required to be held for liquidity purposes earns interest; and
- overseas banks earn interest on certain accounts in certain countries.

Consequently, the average interest earned on such assets is comparatively low. These deposits are maintained by us in these accounts to comply with statutory requirements and to facilitate international business, rather than to earn income.

79

Table of Contents

The following tables set forth, by currency of denomination, average balances and, where applicable, interest amounts and nominal rate for our assets and liabilities under IFRS for the years ended December 31, 2013, 2014 and 2015:

	For the Year Ended December 31,								
	2013			2014			2015		
	Average Balance	Interest Earned(1)	Average Nominal Rate	Average Balance	Interest Earned(1)	Average Nominal Rate	Average Balance	Interest Earned(1)	Average Nomin
	(In millions of Ch$, except percentages)								
IFRS:									
Assets									
Interest earning assets									
Deposits in Central Bank									
Ch$	294,427	1,386	0.47%	298,688	3,401	1.14%	261,059	2,701	1.
UF									
Foreign currency	101,845	265	0.26	96,598	497	0.51	119,768	719	0.
Total	**396,272**	**1,651**	**0.42**	**395,286**	**3,898**	**0.99**	**380,827**	**3,420**	**0.**
Financial Investments									
Ch$	797,743	26,424	3.31	1,102,713	52,006	4.72	1,201,558	43,682	3.
UF	930,818	50,314	5.41	647,066	51,175	7.91	505,870	28,615	5.
Foreign currency	218,414	4,723	2.16	219,291	9,417	4.29	237,805	9,222	3.
Total	**1,946,975**	**81,461**	**4.18**	**1,969,070**	**112,598**	**5.72**	**1,945,233**	**81,519**	**4.**
Loans in advance to Banks									
Ch$	496,870	15,728	3.17	602,968	18,938	3.14	1,099,698	28,267	2.
UF									
Foreign currency									
Total	**496,870**	**15,728**	**3.17**	**602,968**	**18,938**	**3.14**	**1,099,698**	**28,267**	**2.**
Commercial loans									
Ch$	5,906,716	467,912	7.92	6,296,574	433,759	6.89	6,353,016	412,854	6.
UF	4,464,635	308,227	6.90	4,834,705	372,748	7.71	4,786,721	294,792	6.
Foreign currency	2,106,159	57,023	2.71	2,185,315	51,069	2.34	2,503,652	53,937	2.
Total	**12,477,510**	**833,162**	**6.68**	**13,316,594**	**857,576**	**6.44**	**13,643,389**	**761,583**	**5.**
Consumer Loans									
Ch$	2,834,958	562,721	19.85	3,068,810	564,660	18.40	3,336,722	565,089	16.
UF	59,135	5,260	8.89	77,674	9,242	11.90	83,464	8,217	9.
Foreign currency	15,739	6	0.04	20,395			24,649		
Total	**2,909,832**	**567,987**	**19.52**	**3,166,879**	**573,902**	**18.12**	**3,444,835**	**573,306**	**16.**
Residential mortgage loans									
Ch$									
UF	4,455,850	288,888	6.48	5,082,293	497,258	9.78	5,826,928	469,633	8.
Foreign currency									
Total	**4,455,850**	**288,888**	**6.48**	**5,082,293**	**497,258**	**9.78**	**5,826,928**	**469,633**	**8.**
Repurchase agreements									

Ch$	27,382	1,649	6.02	27,704	1,355	4.89	36,844	1,367	3.
UF									
Foreign currency									
Total	**27,382**	**1,649**	**6.02**	**27,704**	**1,355**	**4.89**	**36,844**	**1,367**	**3.**
Total interest earning assets									
Ch$	10,358,096	1,075,820	10.39	11,397,457	1,074,119	9.42	12,288,897	1,053,960	8.
UF	9,910,438	652,689	6.59	10,641,738	930,423	8.74	11,202,983	801,257	7.
Foreign currency	2,442,157	62,017	2.54	2,521,599	60,983	2.42	2,885,874	63,878	2.
Total	**Ch$ 22,710,691**	**Ch$ 1,790,526**	**7.88%**	**Ch$ 24,560,794**	**Ch$ 2,065,525**	**8.41%**	**Ch$ 26,377,754**	**Ch$ 1,919,095**	**7.**

(1) Interest earned includes interest accrued on trading securities.

Table of Contents

	For the Year Ended December 31,								
	2013			2014			2015		
	Average Balance	Interest Earned(1)	Average Nominal Rate	Average Balance	Interest Earned(1)	Average Nominal Rate	Average Balance	Interest Earned(1)	Average Nominal Rate
	(In millions of Ch$, except percentages)								
IFRS:									
Assets									
Non-interest earning assets									
Cash and due from banks									
Ch$	434,620			403,354			501,644		
UF							53		
Foreign currency	301,156			367,273			413,646		
Total	**735,776**			**770,627**			**915,343**		
Transactions in the course of collection									
Ch$	225,309			246,658			327,091		
UF									
Foreign currency	178,101			167,715			208,630		
Total	**403,410**			**414,373**			**535,721**		
Allowances for loan losses									
Ch$	(409,921)			(477,991)			(493,583)		
UF									
Foreign currency	(6)								
Total	**(409,927)**			**(477,991)**			**(493,583)**		
Derivatives									
Ch$	295,460			603,412			1,022,877		
UF									
Foreign currency	52,395			48,324			84,612		
Total	**347,855**			**651,736**			**1,107,489**		
Investments in Other Companies									
Ch$	15,525			20,245			26,286		
UF									
Foreign currency	41			47			53		
Total	**15,566**			**20,292**			**26,339**		
Intangible assets									
Ch$	74,709			68,359			64,706		
UF									
Foreign currency									
Total	**74,709**			**68,359**			**64,706**		
Fixed assets									
Ch$	201,991			202,385			208,804		
UF									
Foreign currency									
Total	**201,991**			**202,385**			**208,804**		
Current tax assets									

Ch$			
UF			
Foreign currency			
Total			
Deferred tax assets			
Ch$	44,785	62,783	94,626
UF			
Foreign currency			
Total	**44,785**	**62,783**	**94,626**

Table of Contents

	For the Year Ended December 31,								
	2013			2014			2015		
	Average Balance	Interest Earned(1)	Average Nominal Rate	Average Balance	Interest Earned(1)	Average Nominal Rate	Average Balance	Interest Earned(1)	Average Nominal Rate
	(In millions of Ch$, except percentages)								
Other assets									
Ch$	205,980			173,425			197,903		
UF	61,560			55,948			61,970		
Foreign currency	30,868			100,899			181,307		
Total	**298,408**			**330,272**			**441,180**		
Total non-interest earning assets									
Ch$	1,088,458			1,302,630			1,950,354		
UF	61,560			55,948			62,023		
Foreign currency	562,555			684,258			888,248		
Total	**1,712,573**			**2,042,836**			**2,900,625**		
Total Assets									
Ch$	11,446,554	1,075,820		12,700,087	1,074,119		14,239,251	1,053,960	
UF	9,971,998	652,689		10,697,686	930,423		11,265,006	801,257	
Foreign currency	3,004,712	62,017		3,205,857	60,983		3,774,122	63,878	
Total	**Ch$ 24,423,264**	**Ch$ 1,790,526**		**Ch$ 26,603,630**	**Ch$ 2,065,525**		**Ch$ 29,278,379**	**Ch$ 1,919,095**	

Table of Contents

	For the Year Ended December 31,								
	2013			2014			2015		
	Average Balance	Interest paid	Average Nominal Rate	Average Balance	Interest paid	Average Nominal Rate	Average Balance	Interest paid	Average Nominal Ra
	(In millions of Ch$, except percentages)								
IFRS:									
Liabilities									
Interest bearing liabilities									
Savings accounts									
Ch$	6,836,894	354,636	5.19%	6,970,983	271,883	3.90%	7,122,450	236,628	3.
UF	2,248,767	117,241	5.21	1,960,666	148,381	7.57	1,747,270	91,302	5.
Foreign currency	756,822	3,312	0.44	792,571	2,435	0.31	946,815	2,427	0.
Total	**9,842,483**	**475,189**	**4.83**	**9,724,220**	**422,699**	**4.35**	**9,816,535**	**330,357**	**3.**
Repurchase agreements									
Ch$	285,107	13,148	4.61	257,477	9,479	3.68	229,496	6,947	3.
UF	128			1,741	102	5.86	3,950	268	6.
Foreign currency	3,872			3,083			5,068	1	0.
Total	**289,107**	**13,148**	**4.55**	**262,301**	**9,581**	**3.65**	**238,514**	**7,216**	**3.**
Borrowings from financial institutions									
Ch$	140,055	3,307	2.36	277,597	1,054	0.38	45,340	595	1.
UF	13			9	1	11.11	7	1	14.
Foreign currency	1,061,798	10,484	0.99	859,593	6,111	0.71	1,315,459	9,575	0.
Total	**1,201,866**	**13,791**	**1.15**	**1,137,199**	**7,166**	**0.63**	**1,360,806**	**10,171**	**0.**
Debt issued									
Ch$	22,731	1,132	4.98	12,179	2,123	17.43			
UF	3,075,889	182,824	5.94	3,401,241	316,902	9.32	3,904,943	302,669	7.
Foreign currency	672,589	15,374	2.29	1,483,580	25,301	1.71	1,741,176	26,442	1.
Total	**3,771,209**	**199,330**	**5.29**	**4,897,000**	**344,326**	**7.03**	**5,646,119**	**329,111**	**5.**
Other financial obligations									
Ch$	101,782	1,473	1.45	108,487	1,356	1.25	121,817	1,448	1.
UF	21,757	1,398	6.43	16,690	3,640	21.81	13,498	1,774	13.
Foreign currency	50,329	42	0.08	64,982	20	0.03	44,407	92	0.
Total	**173,868**	**2,913**	**1.68**	**190,159**	**5,016**	**2.64**	**179,722**	**3,314**	**1.**
Total interest bearing liabilities									
Ch$	7,386,569	373,696	5.06	7,626,723	285,895	3.75	7,519,103	245,618	3.
UF	5,346,554	301,463	5.64	5,380,347	469,026	8.72	5,669,668	396,014	6.
Foreign currency	2,545,410	29,212	1.15	3,203,809	33,867	1.06	4,052,925	38,537	0.
Total	**Ch$ 15,278,533**	**Ch$ 704,371**	**4.61%**	**Ch$ 16,210,879**	**Ch$ 788,788**	**4.87%**	**Ch$ 17,241,696**	**Ch$ 680,169**	**3.**

Table of Contents

	For the Year Ended December 31,								
	2013			2014			2015		
	Average Balance	Interest paid	Average Nominal Rate	Average Balance	Interest paid	Average Nominal Rate	Average Balance	Interest paid	Average Nominal Rate
	(In millions of Ch$, except percentages)								
IFRS:									
Liabilities									
Non-interest bearing liabilities									
Current account and demand deposits									
Ch$	4,576,645			5,109,950			5,727,221		
UF	164,012			185,098			285,412		
Foreign currency	714,685			929,007			1,116,853		
Total	**5,455,342**			**6,224,055**			**7,129,486**		
Transactions in the course of payment									
Ch$	84,307			108,117			171,724		
UF									
Foreign currency	148,098			138,669			206,378		
Total	**232,405**			**246,786**			**378,102**		
Derivatives									
Ch$	313,315			588,001			941,672		
UF									
Foreign currency	78,467			68,076			95,387		
Total	**391,782**			**656,077**			**1,037,059**		
Current tax liabilities									
Ch$	5,401			3,864			11,461		
UF									
Foreign currency									
Total	**5,401**			**3,864**			**11,461**		
Deferred tax liabilities									
Ch$									
UF									
Foreign currency									
Total									
Provisions									
Ch$	110,187			183,730			126,682		
UF									
Foreign currency									
Total	**110,187**			**183,730**			**126,682**		
Other liabilities									
Ch$	243,424			193,974			212,265		
UF	17,266			17,654			17,226		

Foreign currency	27,758	27,810	12,007
Total	**288,448**	**239,438**	**241,498**
Equity			
Ch$	2,661,166	2,838,801	3,112,395
UF			
Foreign currency			
Total	**2,661,166**	2,838,801	**3,112,395**
Total non-interest bearing liabilities and equity			
Ch$	7,994,445	9,026,437	10,303,420
UF	181,278	202,752	302,638
Foreign currency	969,008	1,163,562	1,430,625
Total	**9,144,731**	**10,392,751**	**12,036,683**

Table of Contents

	For the Year Ended December 31,								
	2013			2014			2015		
	Average Balance	Interest paid	Average Nominal Rate	Average Balance	Interest paid	Average Nominal Rate	Average Balance	Interest paid	Average Nominal Rate
	(In millions of Ch$, except percentages)								
IFRS:									
Total liabilities and equity									
Ch$	15,381,014	373,696		16,653,160	285,895		17,822,523	245,618	
UF	5,527,832	301,463		5,583,099	469,026		5,972,306	396,014	
Foreign currency	3,514,418	29,212		4,367,371	33,867		5,483,550	38,537	
Total	**24,423,264**	**704,371**		**26,603,630**	**788,788**		**29,278,379**	**680,169**	

Table of Contents

Interest Earning Assets and Net Interest Margin

The following table sets forth, by currency of denomination, the levels of our average interest earning assets and net interest, and illustrates the comparative margins obtained, for the years ended December 31, 2013, 2014 and 2015:

	For the Year Ended December 31,					
	2013		2014		2015	
IFRS:						
Total average interest earning assets						
Ch$	Ch$	10,358,096	Ch$	11,397,457	Ch$	12,288,897
UF		9,910,438		10,641,738		11,202,983
Foreign currency		2,442,157		2,521,599		2,885,874
Total		**22,710,691**		**24,560,794**		**26,377,754**
Net interest earned (including interest earned on trading securities)(1)						
Ch$		702,124		788,224		808,342
UF		351,226		461,397		405,243
Foreign currency		32,805		27,116		25,341
Total	**Ch$**	**1,086,155**	**Ch$**	**1,276,737**	**Ch$**	**1,238,926**
Net interest margin, nominal basis(2)						
Ch$		6.78%		6.92%		6.58%
UF		3.54		4.34		3.62
Foreign currency		1.34		1.08		0.88
Total		**4.78%**		**5.20%**		**4.70%**

(1) Net interest earned is defined as interest revenue earned less interest expense incurred.

(2) Net interest margin, nominal basis is defined as net interest earned divided by average interest earning assets.

Table of Contents

Changes in Net Interest Income Volume and Rate Analysis

The following tables compare, by currency of denomination, changes in our net interest revenue between 2013 and 2014, as well as 2014 and 2015, caused by (i) changes in the average volume of interest earning assets and interest bearing liabilities and (ii) changes in their respective nominal interest rates. Volume and rate variances were calculated based on movements in average balances over the period and changes in nominal interest rate, average interest earning assets and average interest bearing liabilities. The net change attributable to changes in both volume and rate has been allocated proportionately to the change in volume and the change in rate.

	Increase (Decrease) from 2013 to 2014 due to changes in		Net Change from 2013 to 2014	Increase (Decrease) from 2014 to 2015 due to changes in		Net Change from 2014 to 2015
	Volume	Rate		Volume	Rate	
			(in millions of Ch$)			
IFRS:						
Assets						
Interest earning assets						
Deposits in Central Bank						
Ch$	20	1,995	2,015	(406)	(294)	(700)
UF						
Foreign currency	(14)	246	232	131	91	222
Total	**6**	**2,241**	**2,247**	**(275)**	**(203)**	**(478)**
Financial investments						
Ch$	12,132	13,450	25,282	4,361	(12,685)	(8,324)
UF	(18,157)	19,018	861	(9,787)	(12,773)	(22,560)
Foreign currency	19	4,675	4,694	759	(954)	(195)
Total	**(6,006)**	**37,143**	**31,137**	**(4,667)**	**(26,412)**	**(31,079)**
Loans in advance to bank						
Ch$	3,333	(123)	3,210	13,280	(3,951)	9,329
UF						
Foreign currency						
Total	**3,333**	**(123)**	**3,210**	**13,280**	**(3,951)**	**9,329**
Commercial loans						
Ch$	29,530	(63,683)	(34,153)	3,858	(24,763)	(20,905)
UF	26,787	37,734	64,521	(3,664)	(74,292)	(77,956)
Foreign currency	2,080	(8,034)	(5,954)	7,061	(4,193)	2,868
Total	**58,397**	**(33,983)**	**24,414**	**7,255**	**(103,248)**	**(95,993)**
Consumer loans						
Ch$	44,620	(42,681)	1,939	47,243	(46,814)	429
UF	1,917	2,065	3,982	653	(1,678)	(1,025)
Foreign currency	1	(7)	(6)			
Total	**46,538**	**(40,623)**	**5,915**	**47,896**	**(48,492)**	**(596)**
Residential mortgage loans						
Ch$						
UF	45,089	163,281	208,370	67,027	(94,652)	(27,625)
Foreign currency						
Total	**45,089**	**163,281**	**208,370**	**67,027**	**(94,652)**	**(27,625)**
Repurchase agreement						
Ch$	19	(313)	(294)	385	(373)	12
UF						
Foreign currency						
Total	**19**	**(313)**	**(294)**	**385**	**(373)**	**12**
Total interest earning assets						
Ch$	89,654	(91,355)	(1,701)	68,721	(88,880)	(20,159)
UF	55,636	222,098	277,734	54,229	(183,395)	(129,166)
Foreign currency	2,086	(3,120)	(1,034)	7,951	(5,056)	2,895
Total	**147,376**	**127,623**	**274,999**	**130,901**	**(277,331)**	**(146,430)**

87

Table of Contents

	Increase (Decrease) from 2013 to 2014 due to changes in Volume	Rate	Net Change from 2013 to 2014	Increase (Decrease) from 2014 to 2015 due to changes in Volume	Rate	Net Change from 2014 to 2015
			(in millions of Ch$)			
IFRS:						
Liabilities						
Interest bearing liabilities						
Savings accounts and time deposits						
Ch$	6,829	(89,582)	(82,753)	5,796	(41,051)	(35,255)
UF	(16,519)	47,659	31,140	(14,849)	(42,230)	(57,079)
Foreign currency	150	(1,027)	(877)	431	(439)	(8)
Total	**(9,540)**	**(42,950)**	**(52,490)**	**(8,622)**	**(83,720)**	**(92,342)**
Repurchase agreements						
Ch$	(1,191)	(2,478)	(3,669)	(961)	(1,571)	(2,532)
UF		102	102	148	18	166
Foreign currency					1	1
Total	**(1,191)**	**(2,376)**	**(3,567)**	**(813)**	**(1,552)**	**(2,365)**
Borrowing from financial institutions						
Ch$	1,778	(4,031)	(2,253)	(1,432)	973	(459)
UF		1	1			
Foreign currency	(1,770)	(2,603)	(4,373)	3,315	149	3,464
Total	**8**	**(6,633)**	**(6,625)**	**1,883**	**1,122**	**3,005**
Debt issued						
Ch$	(731)	1,722	991	(1,061)	(1,062)	(2,123)
UF	21,062	113,016	134,078	43,236	(57,469)	(14,233)
Foreign currency	14,649	(4,722)	9,927	4,098	(2,957)	1,141
Total	**34,980**	**110,016**	**144,996**	**46,273**	**(61,488)**	**(15,215)**
Other financial obligation						
Ch$	93	(210)	(117)	161	(69)	92
UF	(395)	2,637	2,242	(606)	(1,260)	(1,866)
Foreign currency	10	(32)	(22)	(8)	80	72
Total	**(292)**	**2,395**	**2,103**	**(453)**	**(1,249)**	**(1,702)**
Total interest bearing liabilities						
Ch$	6,778	(94,579)	(87,801)	2,503	(42,780)	(40,277)
UF	4,148	163,415	167,563	27,929	(100,941)	(73,012)
Foreign currency	13,039	(8,384)	4,655	7,836	(3,166)	4,670
Total	**23,965**	**60,452**	**84,417**	**38,268**	**(146,887)**	**(108,619)**

Table of Contents

Financial Investments

Financial assets held for trading:

The following table sets forth a breakdown of instruments classified as financial assets held-for-trading, included in our investment portfolio:

	As of December 31, 2013	As of December 31, 2014 (in millions of Ch$)	As of December 31, 2015	Weighted Average Nominal Rate as of December 31, 2015 %
IFRS:				
Instruments issued by the Chilean Government and the Central Bank:				
Central Bank bonds	Ch$ 34,407	Ch$ 13,906	Ch$ 46,068	1.49%
Central Bank promissory notes	2,995	2,996	103,832	2.92
Other instruments issued by the Chilean Government and the Central Bank	27,535	71,968	100,016	1.92
Other securities issued in Chile:				
Mortgage bonds from domestic banks	14	9		
Bonds from domestic banks	1,926	3,197	21	5.41
Deposits in domestic banks	255,582	199,665	583,217	4.00
Bonds from other Chilean companies	3,427	1,351		
Other instruments issued in Chile	1,035	366	10,420	
Instruments issued by foreign institutions:				
Instruments from foreign governments or central banks				
Other instruments issued abroad				
Total	**Ch$ 326,921**	**Ch$ 293,458**	**Ch$ 843,574**	**3.48%**

Other securities issued in Chile includes instruments sold under repurchase agreements with customers and financial instruments, amounting to Ch$227,453 million as of December 31, 2013, Ch$148,525 million as of December 31, 2014 and Ch$149,333 million as of December 31, 2015. Instruments issued by the Chilean Government and the Central Bank include instruments sold under agreements to repurchase to customers and financial institutions. For these instruments, there were no balances as of December 31, 2013 and 2014. Nevertheless, for the year ended December 31, 2015 there was a total balance of Ch$9,244 million.

Investment Portfolio:

The detail of instruments classified as financial assets available-for-sale and as financial assets held-to-maturity is as follows:

Table of Contents

Financial assets available-for-sale

	As of December 31, 2013	As of December 31, 2014 (in millions of Ch$)	As of December 31, 2015	Weighted average nominal rate as of December 31, 2015 %
IFRS:				
Instruments issued by the Chilean Government and the Central Bank:				
Bonds issued by the Chilean Government and the Central Bank	Ch$ 333,035	Ch$ 28,795	Ch$ 36,258	4.34%
Promissory notes issued by the Chilean Government and the Central Bank	50,415	149,755		
Other instruments	202,958	160,774	50,250	2.40
Other instruments issued in Chile:				
Equity instruments valued at cost	352	358	366	
Equity instruments valued at fair value	7,827	8,249	6,896	
Mortgage bonds from domestic banks	96,933	96,294	87,610	3.96
Bonds from domestic banks	128,500	251,231	83,960	3.09
Deposits from domestic banks	617,816	657,467	450,976	4.31
Bonds from other Chilean companies	13,558	29,519	17,766	6.60
Other instruments	154,267	162,829	191,537	5.85
Instruments issued by Foreign Institutions:				
Instruments from foreign governments or central banks				
Other instruments issued abroad	76,222	63,525	81,644	
Total	**Ch$ 1,681,883**	**Ch$ 1,608,796**	**Ch$ 1,007,263**	**4.07%**

The portfolio of financial assets available for sale included net unrealized gains of Ch$36,443 million, Ch$40,929 million and Ch$45,815 million as of December 31, 2013, 2014, and 2015, respectively. These unrealized gains are accounted in equity under other comprehensive income.

Financial assets held to maturity

There are no securities reported under this category as of December 31, 2013, 2014 and 2015.

Table of Contents

Maturity of Financial Investments:

The maturities of financial assets held-for-trading and financial assets available-for-sale as of December 31, 2013, 2014 and 2015 were as follows:

[redacted]

Financial assets held for trading:						
Instruments issued by the Chilean Government and the Central Bank:						
Central Bank bonds	Ch$ 34,407	2.32%	Ch$	%Ch$	%Ch$	%Ch$ 34,407
Central Bank promissory notes	2,995	3.84				2,995
Other instruments issued by the Chilean Government and the Central Bank	27,535	2.26				27,535
Other securities issued in Chile:						
Mortgage bonds from domestic banks	14	3.88				14
Bonds from domestic banks	1,926	4.00				1,926
Deposits in domestic banks	255,582	4.44				255,582
Bonds from other Chilean companies	3,427	10.94				3,427
Other instruments issued in Chile	1,035					1,035
Instruments issued by foreign institutions:						
Instruments from foreign governments or central banks						
Other instruments issued abroad						
Total	**Ch$ 326,921**	**4.10%**	**Ch$**	**Ch$**	**%Ch$**	**%Ch$ 326,921**

Table of Contents

	As of December 31, 2014								
	Due within 1 year	Weighted Average Nominal Rate	Due after 1 year but within 5 years	Weighted Average Nominal Rate	Due after 5 year but within 10 years	Weighted Average Nominal Rate	Due after 10 years	Weighted Average Nominal Rate	Total
	(millions of Ch$, except percentages)								
Financial assets held for trading:									
Instruments issued by the Chilean Government and the Central Bank:									
Central Bank bonds	Ch$ 13,906	2.95%	Ch$	%	Ch$	%	Ch$	%	Ch$ 13,906
Central Bank promissory notes	2,996	2.76							2,996
Other instruments issued by the Chilean Government and the Central Bank	71,968	3.07							71,968
Other securities issued in Chile:									
Mortgage bonds from domestic banks	9	3.75							9
Bonds from domestic banks	3,197	4.93							3,197
Deposits in domestic banks	199,665	3.77							199,665
Bonds from other Chilean companies	1,351	12.01							1,351
Other instruments issued in Chile	366								366
Instruments issued by foreign institutions:									
Instruments from foreign governments or central banks									
Other instruments issued abroad									
Total	**Ch$ 293,458**	**3.60%**	**Ch$**		**Ch$**	**%**	**Ch$**	**%**	**Ch$ 293,458**

Table of Contents

[redacted]														
Financial assets held for trading:														
[redacted]														
Central Bank bonds	Ch$	46,068	1.49%	Ch$		%	Ch$		%	Ch$		%	Ch$	46,068
[redacted]														
Other instruments issued by the Chilean Government and the Central Bank		100,016	1.92											100,016
[redacted]														
Mortgage bonds from domestic banks														
[redacted]														
Deposits in domestic banks		583,217	4.00											583,217
[redacted]														
Other instruments issued in Chile		10,420												10,420
[redacted]														
Instruments from foreign governments or central banks														
[redacted]														
Total	**Ch$**	**843,574**	**3.48%**	**Ch$**			**Ch$**		**%**	**Ch$**		**%**	**Ch$**	**843,574**

Table of Contents

	Due within 1 year	Weighted Average Nominal Rate	Due after 1 year but within 5 years	Weighted Average Nominal Rate	Due after 5 year but within 10 years	Weighted Average Nominal Rate	Due after 10 years	Weighted Average Nominal Rate	Total
				As of December 31, 2013 (millions of Ch$, except percentages)					
Financial assets available-for-sale:									
Instruments issued by the Chilean Government and the Central Bank:									
Bonds issued by the Chilean Government and the Central Bank	Ch$ 71,411	2.51%	Ch$ 254,295	2.49%	Ch$ 7,329	4.93%	Ch$	%	Ch$ 333,035
Promissory notes issued by the Chilean Government and the Central Bank	50,415	3.84							50,415
Other instruments	28,817	3.14	112,112	3.13	61,954	4.41	75	3.66	202,958
Other instruments issued in Chile:									
Equity instruments valued at cost							352		352
Equity instruments valued at fair value							7,827		7,827
Mortgage bonds from domestic banks	8,927	3.97	35,103	3.97	35,018	4.02	17,885	4.02	96,933
Bonds from domestic banks	30,116	3.55	86,357	3.59	11,266	4.74	761	3.87	128,500
Deposits from domestic banks	601,393	3.57	16,423	3.30					617,816
Bonds from other Chilean companies	599	4.90	6,510	6.28	2,432	5.11	4,017	5.14	13,558
Other instruments	13,715	7.23	39,280	6.53	99,008	5.83	2,264	7.17	154,267
Instruments issued by Foreign Institutions:									
Instruments from foreign governments or central banks									
Other instruments issued abroad					33,985	5.27	42,237		76,222
Total	**Ch$ 805,393**	**3.54%**	**Ch$ 550,080**	**3.25%**	**Ch$ 250,992**	**5.07%**	**Ch$ 75,418**	**4.48%**	**Ch$ 1,681,883**

Table of Contents

	As of December 31, 2014								
	Due within 1 year	Weighted Average Nominal Rate	Due after 1 year but within 5 years	Weighted Average Nominal Rate	Due after 5 year but within 10 years	Weighted Average Nominal Rate	Due after 10 years	Weighted Average Nominal Rate	Total
	(millions of Ch$, except percentages)								
Financial assets available-for-sale:									
Instruments issued by the Chilean Government and the Central Bank:									
Bonds issued by the Chilean Government and the Central Bank	Ch$ 8,137	3.27%	Ch$ 20,501	3.28%	Ch$ 157	4.04%	Ch$	%	Ch$ 28,795
Promissory notes issued by the Chilean Government and the Central Bank	149,755	2.81							149,755
Other instruments	19,341	3.42	64,457	3.48	52,937	4.67	24,039	4.06	160,774
Other instruments issued in Chile:									
Equity instruments valued at cost							358		358
Equity instruments valued at fair value							8,249		8,249
Mortgage bonds from domestic banks	9,468	4.04	36,374	4.04	34,374	4.07	16,078	3.96	96,294
Bonds from domestic banks	31,034	3.07	124,048	3.07	91,239	3.07	4,910	3.33	251,231
Deposits from domestic banks	612,883	4.07	44,584	3.41					657,467
Bonds from other Chilean companies	1,576	4.28	10,829	5.49	5,260	3.97	11,854	3.75	29,519
Other instruments	17,389	6.36	92,670	6.00	49,845	5.92	2,925	7.17	162,829
Instruments issued by Foreign Institutions:									
Instruments from foreign governments or central banks									
Other instruments issued abroad			3,211	5.09	1,938	5.00	58,376		63,525
Total	**Ch$ 849,583**	**3.84%**	**Ch$ 396,674**	**4.04%**	**Ch$ 235,750**	**4.21%**	**Ch$ 126,789**	**4.06%**	**Ch$ 1,608,796**

Table of Contents

	As of December 31, 2015 (millions of Ch$, except percentages)								
	Due within 1 year	**Weighted Average Nominal Rate**	**Due after 1 year but within 5 years**	**Weighted Average Nominal Rate**	**Due after 5 year but within 10 years**	**Weighted Average Nominal Rate**	**Due after 10 years**	**Weighted Average Nominal Rate**	**Total**
Financial assets available-for-sale:									
Instruments issued by the Chilean Government and the Central Bank:									
Bonds issued by the Chilean Government and the Central Bank	Ch$ 10,781	4.32%	Ch$ 25,477	4.35%	Ch$	%	Ch$	%	Ch$ 36,258
Promissory notes issued by the Chilean Government and the Central Bank									
Other instruments	20,547	1.99	29,124	2.68	577	2.99	2	3.34	50,250
Other instruments issued in Chile:									
Equity instruments valued at cost							366		366
Equity instruments valued at fair value							6,896		6,896
Mortgage bonds from domestic banks	9,528	3.89	35,267	3.94	30,141	3.99	12,674	3.99	87,610
Bonds from domestic banks	12,189	3.10	48,551	3.09	22,119	3.05	1,101	3.45	83,960
Deposits from domestic banks	420,467	4.25	30,509	5.13					450,976
Bonds from other Chilean companies	2,093	6.80	11,519	6.89	1,543	5.82	2,611	5.58	17,766
Other instruments	15,751	6.44	94,946	6.01	77,520	5.48	3,320	7.17	191,537
Instruments issued by Foreign Institutions:									
Instruments from foreign governments or central banks									
Other instruments issued abroad	81,644								81,644
Total	**Ch$ 573,000**	**3.60%**							